

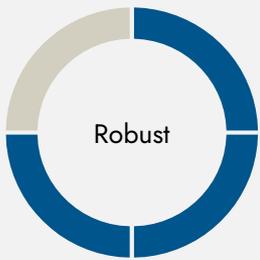
SECOND PARTY OPINION

on the sustainability of the Government of the United Kingdom’s Green Financing Framework

V.E considers that the United Kingdom (UK) Government’s Green Financing Framework is aligned with the four core components of the Green Bond Principles 2021 (“GBP”)

Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping



Characteristics of the Framework

Green Project Categories	6 Categories of Eligible Green Expenditures
Project locations	Mostly in the UK, worldwide for some projects
Existence of framework	Yes
Share of refinancing	Maximum 50%
Look back period	1 year

Issuer

ESG Performance as of April 2021



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Environment				
Social				
Governance				

Coherence

Coherent
Partially coherent
Not coherent

V.E considers that the UK Government’s Green Financing Framework is coherent with the UK Government’s strategic sustainability priorities, and that it contributes to the achievement of its environmental commitments and targets.



Keys findings

V.E considers that the UK Government's Green Financing Framework is aligned with the four core components of the Green Bond Principles 2021.

Use of Proceeds – aligned with the GBP

- The Eligible Categories are broadly defined in the Framework. For the inaugural Green Financing¹ issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), the Issuer has identified a Portfolio of Green Expenditures in line with the definitions of green projects outlined in the ICMA Green Bond Principles. The Issuer will update the Framework with further relevant eligibility criteria once the UK's Green Taxonomy² is public.
- The Environmental Objectives are clearly defined, are relevant for all Eligible Green Expenditures and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are considered clear, relevant, and measurable, and will be quantified for nearly all the Eligible Green Expenditures in the reporting. In addition, the Carbon Trust, an independent organisation which provides voluntary carbon certification services and carbon labelling schemes by verifying carbon footprint data, will calculate the carbon impact of the UK Government's Portfolio of Eligible Green Expenditures.
- The Issuer has transparently committed that the expected share of refinancing will not exceed 50% for each issuance and that the look-back period for refinanced Eligible Green Expenditures will be equal or less than one year from the issuance date, in line with best market practices.

Evaluation and Selection - aligned with the GBP

- The Process for Expenditure Evaluation and Selection has been clearly defined by the Issuer, and is considered well structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- The Eligibility Criteria in the Framework has been defined in general terms by the Issuer. For the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), the Issuer has identified a Portfolio of Green Expenditures with clear environmental benefits. The Issuer will update the Framework with further relevant eligibility criteria once the UK's Green Taxonomy becomes publicly available.
- The Environmental and Social (E&S) risk identification and mitigation process is publicly disclosed within this Second Party Opinion and is considered advanced. The process combines monitoring, identification, corrective, and preventive measures for all Eligible Green Expenditures (see detailed analysis on pp. 27-30).

Management of Proceeds - aligned with the GBP and best practices identified by V.E

- The Process for the Management and Allocation of Proceeds is clearly defined and detailed, and is publicly available in the Framework.
- The UK Government intends to allocate the proceeds within two years.

¹ "Green Financing" as defined by the UK Government will include Green Gilts, green retail savings bonds or other specified green instrument.

² The UK has regulated to establish the taxonomy framework which sets out the six environmental objectives. It also sets out the requirement to establish technical screening criteria for the first two environmental objectives by 1 January 2023.



- The net proceeds of the Green Financing issuances will be managed by HM Treasury as part of its normal cash management operation and will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Green Expenditures made during that period for as long as the Green Financing is outstanding.
- The Issuer has provided information on the process that will be followed in the event of divestment or postponement of an Eligible Expenditure and intends to reallocate the proceeds to expenditures that are compliant with the Framework.

Reporting - aligned with the GBP and best practices identified by V.E

- The Issuer has committed to report on the allocation of Proceeds annually, until full allocation of Proceeds and on the environmental impact at least every two years until financing maturity. The report will be publicly available on the HM Treasury, the UK DMO and the National Savings and Investments (NS&I) websites.
- The reporting will cover relevant information related to the allocation of financing proceeds and to the expected environmental and social co-benefits of the expenditures. The Issuer has also committed to report on material developments, issues and controversies related to the Eligible Expenditures.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible Expenditures will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Green Expenditures until full allocation and in case of material changes. The environmental benefits will be externally verified until the maturity of the Green Financing.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Financings³ (“Financings”) to be issued by the UK Government (the “Issuer”) in compliance with the UK Government’s Green Financing Framework (the “Framework”) created to govern the issuance of sovereign green gilts and green retail savings bonds.

Our opinion is established in accordance with V.E’s Environmental, Social and Governance (ESG) exclusive assessment methodology and to the latest version of the voluntary guidelines of ICMA’s Green Bond Principles (GBP) – edited in June 2021.

Our opinion is built on the review of the following components:

- Framework: we have assessed the Portfolio of Eligible Green Expenditures (as of April 8, 2021) and the UK Government’s Green Financing Framework’s potential contribution to sustainability, their alignment with the four core components of the GBP 2021, and their coherence with the Issuer’s environmental commitments. The Issuer has committed to request the update of this SPO in case of any significant change in the Portfolio of Eligible Green Expenditures and/or Framework to confirm its continued alignment with the GBP 2021.
- Issuer: we have assessed the sustainability performance of the Issuer (Sovereign Sustainability Rating©).

Our information sources are multi-channel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided by the Issuer, through documents and interviews conducted with the UK Government and stakeholders involved in the UK Government green gilt issuance, held via a telecommunications system.

We carried out our due diligence assessment from March 22, 2021, to June 23, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

³ The “Green Financing” is to be considered as the bonds to be potentially issued from time to time, subject to the discretion of the Issuer. The name “Green Financing” has been decided by the Issuer: it does not imply any opinion from V.E. Green Financings include: UK’s green gilts, green retail savings bonds or other specified green instrument.

COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers that the UK Government's Green Financing Framework is coherent with the UK Government's strategic sustainability priorities, and that it contributes to the achievement of its environmental commitments and targets.

In 2015, the United Nations Member States adopted the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals (SDGs), recognising the urgent challenge of achieving sustainable development, including combating climate change. Reaching these goals requires the transition of all economic sectors towards sustainable development models, and the immediate action of all public and private actors. In particular, national governments must mobilise to achieve Sustainable Development Goals through regional and global leadership, the integration of sustainability in policies, budgets, institutions and regulatory frameworks, and by working with all stakeholders.

The UK is vulnerable to the impact of climate change. According to the latest UK Climate Projections (2018)⁴, the UK will experience an increase of temperatures, drier summers, increase in heavy rainfall, sea level rise around its coastline, and extreme water levels, including storm surges and tides. Furthermore, in 2012 the UK published its first Climate Change Risk Assessment (CCRA) which identified over 700 risks to the UK from a changing climate, while the second CCRA published in 2017⁵ identified six priority risk areas which need action including: Flooding and coastal change risks to communities, businesses and infrastructure; Risks to health, well-being and productivity from high temperatures; Risks of shortages in the public water supply, and for agriculture, energy generation and industry, with impacts on freshwater ecology; Risks to natural capital, including terrestrial, coastal, marine and freshwater ecosystems, soils and biodiversity; Risks to domestic and international food production and trade; and New and emerging pests and diseases, and invasive non-native species, affecting people, plants and animals.

The UK acknowledges its mission in facing the aforementioned challenges by ratifying and implementing relevant international and regional agreements, and by formalising significant environmental commitments and action plans, which in some cases have quantitative targets:

- The UK became a signatory of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 and the Kyoto Protocol in 1997.
- The UK ratified the Paris Agreement in 2016 and contributes towards its goals via its Nationally Determined Contributions through which the UK has committed to reduce its greenhouse gas (GHG) emissions by at least 68% by 2030 compared to 1990 levels.⁶
- The UK is committed to the UN 2030 Agenda for Sustainable Development, supports the achievement and delivery of the Sustainable Development Goals (SDGs), and has reported its progress through its Voluntary National Review (2019).⁷

⁴ The latest UK Climate Projections can be found at: <https://www.metoffice.gov.uk/binaries/content/assets/metofficegovuk/pdf/research/ukcp/ukcp-headline-findings-v2.pdf>

⁵ Please refer to Chapter 5, section 5.3, of the UK's 7th National Communication to the UNFCCC: https://unfccc.int/sites/default/files/resource/19603845_United%20Kingdom-NC7-BR3-1-gbr%20NC7%20and%20BR3%20with%20Annexes%20%281%29.pdf

⁶ <https://www.gov.uk/government/publications/the-uks-nationally-determined-contribution-communication-to-the-unfccc#:~:text=On%2012%20December%202020%2C%20the,2030%2C%20compared%20to%201990%20levels.>

⁷ <https://www.gov.uk/government/topical-events/uk-voluntary-national-review-of-progress-towards-the-sustainable-development-goals>

- In November 2008 the UK passed the Climate Change Act,⁸ which established a GHG emission target for 2050, and a system of 5-yearly emission reduction targets (carbon budgets) to set the path to 2050. In doing so, the country became the first globally to set a legally binding long-term climate change mitigation target. Under this legislation, in 2019 the UK increased its ambition, committing to reach 'net zero' GHG emissions by 2050.⁹ Furthermore, the UK recently enshrined into law its highly ambitious sixth carbon budget, to reduce emissions by 78% by 2035 compared to 1990 levels.¹⁰
- In 2018, the UK Government published its 25 Year Environment Plan¹¹ committing to improve the natural environment within a generation. The Plan set out a comprehensive strategy for achieving cleaner air and water, reducing waste, using resources more efficiently, ensuring thriving plants and wildlife and connecting more people with nature.
- In January 2020, the UK Government published the Environment Bill¹² to legislate a framework to govern new, legally binding environmental improvement targets for waste, water, air and biodiversity. The Bill would support the objectives outlined in the 25 Year Environment Plan.
- In November 2020, the Ten Point Plan¹³ for a Green Industrial Revolution was published, setting plans to reduce emissions across the economy, including a commitment to end the sale of new petrol and diesel cars and vans by 2030.

To help achieve international and national climate and environmental goals, the UK Government has developed a Green Finance Strategy¹⁴ that aims to encourage private sector financial flows towards greener and cleaner sectors, as well as to strengthen the competitiveness of the UK financial sector. The Issuer mandated the Carbon Trust¹⁵ to publish a Pre-Issuance Impact assessment that estimates the Green Financing Framework's contribution to the country's sustainability policies, targets and assesses its alignment to best market practices. The purpose of this Pre-Issuance Impact Report was to outline:

- The likely approach to be taken for reporting the sustainability impacts of the UK Green Financing Framework;
- A shortlisting of likely available metrics that the UK Government will aim to report against and, where possible, indicative impacts in the different categories of spend; and
- An ex-ante assessment of the allocation and alignment of the likely financed activities with the Government's sustainability related policies, highlighting how the Green Financing Framework supports both the climate goals and the UK Government's commitments.

The Carbon Trust Report emphasises, among other issues, the broad alignment of the UK Government's Green Financing Framework with the recommendations outlined by the Committee on Climate Change's (CCC) 6th Carbon Budget for Net Zero and concludes that it will contribute to the achievement the UK's goal of net zero by 2050.

Further policy changes to support the attainment of environmental goals are upcoming. Mandatory reporting of climate-related financial information will be introduced by 2025.¹⁶ This measure, which is aligned to Taskforce on Climate-related

⁸ <https://www.legislation.gov.uk/ukpga/2008/27/contents>

⁹ <https://www.theccc.org.uk/about/our-expertise/advice-on-reducing-the-uks-emissions/>

¹⁰ <https://www.legislation.gov.uk/ukxi/2021/750/contents/made>

¹¹ 25 Year Environment Plan https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693158/25-year-environment-plan.pdf

¹² Environmental Bill 2020: <https://www.gov.uk/government/publications/environment-bill-2020>

¹³ The ten-point plan for a green industrial revolution <https://www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution>

¹⁴ BEIS Green Finance Strategy:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf

¹⁵ the Carbon Trust, an independent organisation known for providing voluntary carbon certification services and carbon labelling schemes, as well as for working with corporates and governments to help them align their strategies climate science and meet the goals of the Paris Agreement, conducted a pre-issuance impact assessment of the UK Government's Green Financing Programme. <https://www.carbontrust.com/>

¹⁶ TCFD taskforce roadmap <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>



Financial Disclosures (TCFD) recommendations, serves to best ensure that financial decisions consider financial risks and opportunities caused by climate change and other environmental challenges. The UK has proposed to also implement a green taxonomy^{17,18} to define the economic activities which are environmentally sustainable and to improve understanding of the environmental impact of companies' activities and investments.

V.E considers that the UK Government's Green Financing Framework to issue Green Finance Instruments that will finance and refinance Eligible Green Expenditures, aligns coherently with the Issuer's strategic sustainability priorities. The Framework also contributes to the achievement of the UK Government's environmental commitments and goals and addresses the main challenges in terms of sustainable development for national governments.

¹⁷ Chancellor's plans for future of UK financial services <https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services>

¹⁸ The UK has regulated to establish the taxonomy framework which sets out the six environmental objectives. It also sets out the requirement to establish technical screening criteria for the first two environmental objectives by 1 January 2023.

ISSUANCE

The Issuer has described the main characteristics of the Green Financing within a formalised Green Financing Framework (the last updated version was provided to V.E on June 23, 2021) which covers the four core components of the GBP 2021. The Issuer has committed to make this document publicly accessible on its website¹⁹, in line with good market practices.

Alignment with the Green Bond Principles

Use of Proceeds



The net proceeds of the Financings will exclusively finance or refinance, in part or in full, expenditures falling under six Green Categories (“Green Eligible Categories”), as indicated in Table 1 (overleaf).

- The Eligible Categories are broadly defined in the Framework. For the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), the Issuer has identified a Portfolio of Eligible Green Expenditures in line with the definitions of green projects outlined in the GBP. The Issuer will update the Framework with further relevant eligibility criteria once the UK’s Green Taxonomy is public.
- The Environmental Objectives are clearly defined, are relevant for all Eligible Green Expenditures and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are considered clear, relevant, and measurable, and will be quantified for nearly all the Eligible Green Expenditures in the reporting. In addition, the Carbon Trust will calculate the carbon impact of the UK Government’s Portfolio of Eligible Green Expenditures.
- The Issuer has transparently committed that the expected share of refinancing will not exceed 50% for each issuance and that the look-back period for refinanced Eligible Green Expenditures will be equal or less than one year from the issuance date, in line with best market practices.

The Issuer has communicated to V.E. the Portfolio of Eligible Green Expenditures (the “Portfolio”) for the inaugural Green Financing issuance, as well as potential future Green Financing issuances until the Portfolio has been fully financed. The alignment of the Use of Proceeds section has been based on the assessment of the alignment of the Portfolio with ICMA’s definitions of green projects. Please see the full analysis in Table 1. The Issuer has committed to update the Framework with further relevant eligibility criteria once the UK Green Taxonomy becomes publicly available.

BEST PRACTICES

- ⇒ The expected benefits related to the carbon impact of projects have been estimated ex ante with clear baselines for all eligible categories.
- ⇒ The Issuer has committed to limit the share of refinancing to 50%.
- ⇒ The look-back period for refinanced assets is equal or less than 2 years, in line with good market practices.

¹⁹ The Framework will be available in the following websites: www.gov.uk/government/publications/uk-government-green-financing ; <https://www.dmo.gov.uk/data/gilt-market/green-gilt-issuance/> ; <https://www.nsandi.com/get-to-know-us/green-saving>



Table 1. V.E' analysis of Eligible Green Expenditures, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: Eligible Green Expenditures will be limited to HM Treasury budget expenditures and will include government expenditures in the form of direct or indirect investments, subsidies, or tax foregone (a combination of all or some of) and selected operational expenditures.
- Location of Eligible Projects/Assets: mainly within the UK, with some international climate finance projects

UK GREEN FINANCING FRAMEWORK			ELIGIBLE PORTFOLIO	
GREEN ELIGIBLE CATEGORIES	DESCRIPTION OF ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY OBJECTIVES AND BENEFITS	DESCRIPTION OF ELIGIBLE-GREEN EXPENDITURES	V.E'S ANALYSIS
Clean Transportation	<p>Low and zero emission mobility, including vehicles, incentives, infrastructure, and alternative fuels.</p> <p>Research and development for low and zero emission transportation technologies.</p>	<p><u>Climate change mitigation</u></p> <p>GHG emission avoidance</p>	<p>The Portfolio of Eligible Green Expenditures includes expenditures related to acquisition, development, maintenance & operation, R&D, grants, subsidies or awareness-raising programmes for low and zero emission transportation including:</p> <ul style="list-style-type: none"> - Low and zero emission individual vehicles and buses (electric or hydrogen buses which are zero emission at tail pipe). - Dedicated charging and alternative fuel infrastructure for low and zero emission vehicles and buses (electric or hydrogen buses which are zero emission at tailpipe). - Public walking and cycling infrastructure and cycling schemes. - Electrified rail. - Sustainable aviation (R&D) including Sustainable aviation fuel (SAF) initiatives delivering SAF output with a minimum 70% lifecycle GHG reduction in comparison to a counterfactual of 94gCO₂e/MJ (LHV) and Zero emission airport infrastructure development and operations. - Maritime decarbonisation technologies (R&D) following the objectives and targets set out in the Clean Maritime Plan (2019). 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that the expenditures in the Portfolio are in line with ICMA's green project definitions.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting.</p>

UK GREEN FINANCING FRAMEWORK			ELIGIBLE PORTFOLIO	
GREEN ELIGIBLE CATEGORIES	DESCRIPTION OF ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY OBJECTIVES AND BENEFITS	DESCRIPTION OF ELIGIBLE-GREEN EXPENDITURES	V.E'S ANALYSIS
Renewable Energy	<p>Support development of renewable energy generation capacity such as wind, solar and hydrogen.</p> <p>Schemes for renewable heat use, including heat networks, heat pumps and hydrogen heating.</p> <p>Support for energy storage systems, such as batteries, compressed air/liquid air, and gravitational storage.</p> <p>Research and development for the commercial viability of renewable energy technologies.</p>	<p><u>Climate change mitigation</u></p> <p>GHG emission avoidance</p>	<p>The Eligible Portfolio includes expenditures related to R&D, grants and incentives programmes for renewable energy including:</p> <ul style="list-style-type: none"> - The funding of programmes and research centres for the development of renewable energy technologies. - The funding of grant and incentive schemes for the transition to renewable energy heating systems (e.g. the Renewable Heat Incentive Scheme; the Heat Networks Transformation programme which requires heat to be delivered to customers at no greater than 100gCO₂e/kWh; the Heat Networks Investment Project which will follow the EU's²⁰ permitted heat supply criteria of either 75% from combined heat and power or 50% from low or zero heat sources for eligibility). - The funding of international cooperation expenditures related to renewable energy. 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that the expenditures in the Portfolio are in line with ICMA's green project definitions.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting.</p>

²⁰ Please refer to Article 2 of the EU's Energy Efficiency Directive : <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1399375464230&uri=CELEX:32012L0027>

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Energy Efficiency	<p>Support schemes for energy efficiency programmes for the commercial, public and industrial sectors.</p> <p>Support schemes for residential energy efficiency programmes (including heating, retrofit and insulation).</p> <p>Research and development for new energy efficiency technologies.</p>	<p><u>Climate change mitigation</u></p> <p>GHG emission avoidance</p> <p>Energy Savings</p>	<p>The Eligible Portfolio includes expenditures related to renovation works, R&D, grants and incentives programmes for energy efficiency including:</p> <ul style="list-style-type: none"> - The funding of decarbonisation of buildings from the public sector (i.e. The Public Sector Decarbonisation Scheme) which will follow specific technical criteria²¹. - The funding of the renovation and retrofit of the social housing stock (for the least efficient buildings). - The funding of a grant and incentive scheme for energy efficiency improvements in houses. - The funding of programmes and research centres for the development of energy efficient technologies and energy efficient buildings solutions (e.g. Industrial Strategy Challenge Fund for construction, energy systems, heat recovery support). - The funding of international cooperation expenditures related to energy efficiency. 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that the expenditures in the Portfolio are in line with ICMA's green project definitions.</p> <p>Areas for improvement include:</p> <ul style="list-style-type: none"> - To target a minimum EPC level of energy efficiency in the renovation of social housing stock to align with best market practices. Nonetheless, it must be noted that in the context of the UK, targeting a minimum EPC level of C or higher is in line with the UK's government's Clean Growth Strategy. <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, are considered relevant, measurable, and will be quantified in the reporting.</p>

²¹ Please refer to section 5.2 'Project criteria': https://www.salixfinance.co.uk/sites/default/files/Phase_2_Public_Sector_Decarbonisation_Scheme_Guidance_Note_1703_Final.pdf

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GREEN ELIGIBLE CATEGORIES	DESCRIPTION OF ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY OBJECTIVES AND BENEFITS	DESCRIPTION OF ELIGIBLE-GREEN EXPENDITURES	V.E'S ANALYSIS
Pollution Prevention and Control	Reduction of air emissions and greenhouse gas control. Waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy.	<u>Climate change mitigation</u> GHG emission reduction <u>Pollution prevention and control</u> Improved air quality <u>Transition to a circular economy</u>	The Eligible Portfolio includes expenditures related to: <ul style="list-style-type: none"> - The construction and operation of Carbon Capture, Usage and Storage (CCUS) infrastructure. - The funding of the Clean Steel Fund. - The funding of the UK Emission Trading Scheme (ETS) Registry. - The funding of the Industrial Strategy Challenge Fund - Industrial Decarbonisation (R&D). - The funding of the Industrial Strategy Challenge Fund – Materials (R&D). - The funding of the Industrial Strategy Challenge Fund – Manufacturing (R&D). 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that most of the expenditures in the Portfolio relevant to this category are in line with ICMA's green project definitions.</p> <p>The inaugural Green Financing issuance does not include any waste to energy project.</p> <p>Given that projects related to CCUS have not yet been deployed, an area for improvement will consist in excluding CCUS systems from coal/oil/gas assets (including extraction, processing and refinery); and for the application in gas-powered energy generation, high emitting sectors (e.g. steel, cement) and the transport of CO₂, setting relevant thresholds at levels in line with existing national/international standards (e.g. EU Taxonomy).</p> <p>Of note, the aim of the Clean Steel Fund is to place the sector on a pathway in line with the UK's net zero objective by financing R&D. However, V.E does not have visibility on the standards and technologies that will support the decarbonisation of the steel industry.</p> <p>The Environmental Objectives are clearly defined, are relevant and set in coherence with sustainability objectives defined in international standards.</p>

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GREEN ELIGIBLE CATEGORIES	DESCRIPTION OF ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY OBJECTIVES AND BENEFITS	DESCRIPTION OF ELIGIBLE-GREEN EXPENDITURES	V.E'S ANALYSIS
				The expected Environmental Benefits are clear, considered relevant, measurable, and will be quantified in the reporting.
Living and Natural Resources	<p>Protection and enhancement of terrestrial and marine biodiversity, ecosystems and natural capital.</p> <p>Sustainable land use and protection, including environmentally sustainable agriculture.</p> <p>Environmentally sustainable clean water, water storage and wastewater management initiatives.</p> <p>Funding for environmental activities of public sector arms-length bodies.</p>	<p><u>Climate change mitigation</u></p> <p>GHG emission reduction</p> <p><u>Climate change adaptation</u></p> <p><u>The protection and restoration of biodiversity and ecosystems</u></p> <p><u>Sustainable use and protection of water and marine resources</u></p>	<p>The Eligible Portfolio includes expenditures related to:</p> <ul style="list-style-type: none"> - The funding of state agencies and programmes for the environment, land and marine biodiversity protection. - The funding of programmes related to afforestation, forest management, and to combat desertification. - The funding of public and private R&D programmes for the environment and the protection of terrestrial and marine biodiversity. - The funding of state agencies and programmes and grants schemes for agriculture (e.g. Future Farming and Countryside Programme). - The funding of R&D and conservation programmes for sustainable fisheries. - The funding includes expenditures of the Environment Agency related to the protection of water resources (including waterways and rivers, lake and wetland restoration programmes). - The funding includes expenditures of the Environment Agency related to the improvement of the efficiency of water distribution. 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that the expenditures in the Portfolio are in line with ICMA's green project definitions.</p> <p>An area for improvement is to exclusively finance expenditure on organic farming in line with internationally recognised standards.</p> <p>The Environmental Objectives are clearly defined, are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, considered relevant, measurable, and will be quantified in the reporting.</p>

UK GREEN FINANCING FRAMEWORK			ELIGIBLE PORTFOLIO	
GREEN ELIGIBLE CATEGORIES	DESCRIPTION OF ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY OBJECTIVES AND BENEFITS	DESCRIPTION OF ELIGIBLE-GREEN EXPENDITURES	V.E'S ANALYSIS
Climate Change Adaptation	<p>Flood protection, resilience and other risk mitigation programmes.</p> <p>Data driven climate monitoring solutions.</p> <p>Engineering activities and technical consultancy dedicated to adaptation to climate change.</p>	<p><u>Climate change adaptation</u></p> <p>Increase of resilience and adaptive capacities</p> <p>Reduction of vulnerabilities to climate change</p>	<p>The Eligible Portfolio includes expenditures related to R&D, public grants and incentives schemes and international cooperation programmes for Climate Change adaptation including:</p> <ul style="list-style-type: none"> - The funding of national and international programmes and initiatives on climate change adaptation - The funding of international assistance to developing countries on climate change adaptation issues - The funding of programmes to prevent and minimise the consequences of climate change in terms of droughts, floods and other natural disasters (e.g. flood defence programme) 	<p>The Eligible Category is defined in general terms. Nevertheless, the Issuer has communicated with V.E the list of Eligible Green Expenditures to be financed with the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), including its nature and location. V.E confirms that the expenditures in the Portfolio are in line with ICMA's green project definitions.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, they are considered relevant, measurable, and will be quantified in the reporting.</p>

SDG Contribution

The Eligible Categories are likely to contribute to nine of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Living and Natural Resources		2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
Living and Natural Resources		6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
Renewable Energy		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency.
Energy Efficiency		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Clean Transportation		11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Pollution Prevention and Control		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Clean Transport Renewable Energy Energy Efficiency Pollution Prevention and Control Living and Natural Resources Climate Change Adaptation		UN SDG 13 consists of taking urgent action to combat climate change and its impacts. States can contribute to this goal by reducing GHG emissions from transport through the transition towards electric vehicles; investing in renewable energy; improving energy efficiency; investing in natural carbon sinks as well as in technologies and solutions that address climate change mitigation and adaptation. 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

ELIGIBLE CATEGORY	SDG	SDG TARGETS
		<p>14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.</p> <p>14.5 By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information.</p>
<p>Living and Natural Resources</p>		<p>15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.</p> <p>15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.</p> <p>15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation neutral world.</p> <p>15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.</p>

Evaluation and Selection of Eligible Green Expenditures



- The Process for Expenditure Evaluation and Selection has been clearly defined by the Issuer and is considered well structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- The Eligibility Criteria in the Framework has been defined in general terms by the Issuer. For the inaugural Green Financing issuance (as well as potential future Green Financing issuances until the Portfolio has been fully financed), the Issuer has identified a Portfolio of Eligible Green Expenditures with clear environmental benefits. The Issuer will update the Framework with further relevant eligibility criteria once the UK's Green Taxonomy becomes publicly available.
- The E&S risk identification and mitigation process is publicly disclosed within this SPO and is considered advanced. The process combines monitoring, identification, corrective, and preventive measures for all Eligible Green Expenditures (see detailed analysis on pp. 27-30).

Process for Project Evaluation and Selection

- The evaluation and selection of Eligible Green Expenditures is performed on an annual basis by HM Treasury, in consultation with relevant government departments. HM Treasury is responsible for updating the list of potential Eligible Green Expenditures each year, and bilateral engagement is carried out with the relevant departments to verify the eligibility of each expenditure.
- Each update of the eligible Portfolio is brought for information and comment to the Inter-departmental Green Bond Board (IDGBB), established by HM Treasury for the purpose of issuing Green Financing Instruments.
- The IDGBB is chaired by the HM Treasury and comprises senior representatives from:
 - HM Treasury
 - UK Debt Management Office
 - NS&I
 - Department for Business, Energy & Industrial Strategy (BEIS)
 - Department for Environment, Food & Rural Affairs (Defra)
 - Department for Transport (DfT)
 - Foreign, Commonwealth & Development Office (FCDO)
- Depending on the needs identified by the IDGBB, different government departments may be added in the future as required. The IDGBB will meet at least twice a year, and is responsible for advising the HMT and the DMO on, among other things:
 - The Evaluation and Selection of the Eligible Green Expenditures. The HM Treasury will prepare a pre-selection list of potential Eligible Green Expenditures by consulting relevant departments to identify and recommend projects or expenditures. The IDGBB evaluates the list of potential Eligible Green Expenditures and verifies whether the expenditures comply with the criteria and definition of Eligible Green Expenditures in the Framework. The IDGBB will either approve or reject the selected expenditures as Eligible Green Expenditures.
 - Reviewing the allocation and management of Green Financing Proceeds.
 - The design, implementation and maintenance of the Green Financing Framework.



- Green Financing investor reporting.
- The HM Treasury will be the ultimate decision maker on all matters mentioned above.
- The traceability and verification of project selection and evaluation is ensured throughout the process:
 - The HM Treasury is responsible for monitoring the Eligible Green Expenditures on an annual basis during the lifetime of the projects. The HM Treasury will be responsible for reviewing the allocation of proceeds of all Green Financing and determining if any changes are necessary, such as replacing an expenditure if it no longer meets the eligibility criteria or has been cancelled, with another Eligible Green Expenditure. The Issuer commits to externally verify any significant change on the Portfolio of Eligible Green Expenditures to take the appropriate actions in the event that an expenditure is no longer in line with internationally recognised environmental objectives.
 - Relevant ministries will be responsible for monitoring the implementation of eligible projects and alerting the IDGBB to any potential legal controversies. The IDGBB will analyse ESG controversies on an ongoing basis and until the end of the projects and on this basis may choose to recommend the removal of projects from the Portfolio of Eligible Green Expenditures.
 - The traceability of the decisions made on the selection of projects is formalised through an internal process tracked by the HM Treasury and the IDGBB and is recorded in the meeting minutes.
 - The IDGBB reports to the Project Board which is co-chaired by HM Treasury and the UK Debt Management Office.

Furthermore, under the joint chairpersonship of HM Treasury and the DMO, the UK government has established a Stakeholder Discussion Forum (SDF) on which it can draw from specialist knowledge and expertise on technical aspects of the initiative to issue green gilts and green aspects of retail savings products. In particular, the SDF will provide: (i) a range of perspectives on topics as determined by HMT/DMO that is external to government; and (ii) expert opinion on technical matters as requested, drawing on knowledge and experience gained by the individuals and organisations represented at the forum.

Eligibility Criteria

The process relies on selection criteria which are defined in general terms (see Use of Proceeds section). For the inaugural Green Financing issuance, (as well as potential future Green Financing issuances until the Portfolio has been fully financed), the Issuer has identified a Portfolio of Eligible Green Expenditures. V.E has assessed this Portfolio to confirm that all the Eligible Green Expenditures will have potential environmental benefits. The Issuer has committed to update the Framework to define further relevant eligibility criteria to select Eligible Green Expenditures once the UK's Green Taxonomy is published, as well as to provide external verification of any changes and/or updates to the Framework.

In addition, the Issuer has defined exclusion criteria for certain controversial activities. We consider that the exclusionary criteria are relevant, as they cover the main issues related to environmental responsibility, in line with best market practices. The list of these activities is detailed in the Framework and is as follows:

- Nuclear Energy
- Vehicles powered through fossil-fuel combustion and ethanol
- Fossil fuel exploitation and exploration
- Large-scale hydroelectric energy (>25MW) due to potential risk to natural habitats
- Weapons, tobacco, gaming, palm oil industries, and direct manufacture of alcoholic beverages

The Issuer reports that all the expenditures financed under the UK's Green Financing Framework will adhere to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.



Furthermore, the Issuer reports that the Eligible Green Expenditures will exclude any expenditures financed and/or refinanced by green financing instruments issued by other government agencies and public sector entities to ensure suitable oversight and avoid double-counting.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected expenditures with eligibility criteria throughout the life of the instrument and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance. For the inaugural Green Financing issuance, the Issuer commits to externally verify any significant change on the Portfolio of Eligible Green Expenditures.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects/assets throughout the instrument's lifecycle and has provided details on frequency, content and procedures in case a controversy is found on a project.

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and detailed, and is publicly available in the Framework.
- The UK Government intends to allocate the proceeds within two years.
- The net proceeds of the Green Financing will be managed by HM Treasury as part of its normal cash management operation and will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that the balance of the tracked net proceeds will be periodically adjusted to match allocations to Eligible Green Expenditures made during that period for as long as the Green Financing is outstanding.
- The Issuer has provided information on the process that will be followed in case of divestment or postponement of an Eligible Green Expenditure and intends to reallocate the proceeds to expenditures that are compliant with the Framework.

Management Process

- The net cash proceeds of the Green Financing will be credited to HM Treasury and will be managed in line with HM Treasury's cash management objectives.
- The management of proceeds and allocation against Eligible Green Expenditures will be tracked through a green register. The HM Treasury has established a dedicated tracking process within its internal information systems.
- On an annual basis, the IDGBB will review the correct allocation of the proceeds of all the Green Financing raised for Eligible Green Expenditures and determine if any changes are necessary. The IDGBB is also responsible for ensuring the monitoring of the effective use of the funds throughout the life of the Eligible Green Expenditures.
- The Issuer commits to adjust periodically the balance of the tracked proceeds to match allocation to Eligible Green Expenditures through the green register.
- The unallocated funds will be managed by HM Treasury in accordance with its normal cash management guidelines until allocation, which takes account of the long standing debt management policy to fully finance HM Treasury's projected overall financing requirement each year.
- In case of projects postponement, cancellation, divestment or ineligibility, the Issuer has committed to replace the affected Eligible Expenditure with an expenditure or project that meets the Framework's criteria. The Issuer commits to reallocate the divested proceeds on an ongoing basis. Of note, the Issuer has committed to procure an external review of any significant change in the Portfolio of Eligible Green Expenditures financed with the inaugural Green Financing issuance to take the adequate actions.



Furthermore, the Issuer has declared that HM Treasury may from time to time issue further amounts of a green gilt already in issue. Any such further issue of a green gilt is intended to be fungible with the relevant green gilt already in issue. The Issuer declares that this will not limit HM Treasury's ability to allocate the proceeds of a further issue to any Eligible Green Expenditures under the Framework, even where these differ from those Eligible Green Expenditures to which the proceeds of earlier issues of green gilt were allocated. Moreover, the amount of green gilts to be issued in each financial year will be announced as part of the DMO's annual financing remit.

BEST PRACTICES

- ⇒ The allocation period is 24 months.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of expenditure divestment or postponement and it has committed to reallocate divested proceeds to expenditures that are compliant with the Framework on an ongoing basis.

Monitoring & Reporting



- The Issuer has committed to report on the allocation of Proceeds annually, until full allocation of Proceeds and on the environmental impact at least every two years until financing maturity. The report will be publicly available on the HM Treasury, the UK DMO and the National Savings and Investments (NS&I) websites.
- The reporting will cover relevant information related to the allocation of financing proceeds and to the expected environmental and social co-benefits of the expenditures. The Issuer has also committed to report on material developments, issues and controversies related to the Eligible Green Expenditures.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible Green Expenditures will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Green Expenditures until full allocation and in case of material changes. The environmental benefits will be externally verified until the maturity of the Green Financing.

Indicators

The Issuer has committed to transparently communicate at Eligible Green Expenditure Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds cover all the relevant information.

REPORTING INDICATORS

- ⇒ Overview of the allocation of the proceeds of Green Financing to the main Eligible Green Expenditures categories
- ⇒ Breakdown of allocation by Eligible Green Expenditure sub-categories
- ⇒ Balance of unallocated proceeds with confirmation that any temporary use of unallocated funds were managed in line with the UK DMO's normal cash management guidelines
- ⇒ Share of allocation of proceeds to refinancing existing Eligible Green Expenditures versus financing for new and future Eligible Green Expenditures
- ⇒ Co-financing share to be reported where relevant
- ⇒ Any material developments related to the Eligible Green Expenditures

- Environmental benefits and social co-benefits (when relevant): The indicators selected by the Issuer to report on the environmental benefits and social co-benefits are clear, relevant and exhaustive.

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS		SOCIAL BENEFITS INDICATORS
	OUTPUT & OUTCOME INDICATORS	IMPACT INDICATORS	OUTPUT & OUTCOME INDICATORS
Clean Transportation		<ul style="list-style-type: none"> · Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent · Project lifetime greenhouse gas impacts (MtCO) · Project lifetime reduced carbon emissions · Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs) 	<ul style="list-style-type: none"> · Number of jobs created/supported · Number of loans to SMEs and/or microenterprises · Number of SMEs that receive support for equipment and facilities and technological modernisation · Number of people with access to sustainable transport systems
Renewable Energy	<ul style="list-style-type: none"> · Capacity of renewable energy plant(s) constructed or rehabilitated in MW 	<ul style="list-style-type: none"> · Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent 	<ul style="list-style-type: none"> · Number of households benefitted · Number of households and businesses supported to transition to low carbon heating
Energy Efficiency	<ul style="list-style-type: none"> · Level of certification by property 	<ul style="list-style-type: none"> · Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) · Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent 	<ul style="list-style-type: none"> · Number of households benefitted · Number of jobs created/supported

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS		SOCIAL BENEFITS INDICATORS
	OUTPUT & OUTCOME INDICATORS	IMPACT INDICATORS	OUTPUT & OUTCOME INDICATORS
Pollution prevention and control	<ul style="list-style-type: none"> Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a. Amount of waste reused or recycled (tons or in % of total waste) 	<ul style="list-style-type: none"> Annual GHG emissions reduced/avoided in tonnes CO2 equivalent Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs) 	<ul style="list-style-type: none"> Number of SMEs that receive support Number of jobs created/supported
Living and Natural Resources	<ul style="list-style-type: none"> Increase of area under certified land management (ha) Number of native species which have benefitted from the project Hectares of protected areas restored/maintained 	<ul style="list-style-type: none"> Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent Absolute or % reduction in air/water pollutants 	<ul style="list-style-type: none"> Number of jobs created/supported
Climate Change Adaptation	<ul style="list-style-type: none"> Number of flood defences Number of properties better protected 		<ul style="list-style-type: none"> Estimated number of beneficiaries from adaptation projects Number of jobs created/supported

BEST PRACTICES

- ⇒ The Issuer's report will be publicly available.
- ⇒ The reporting will cover relevant information related to the allocation of Green Financing proceeds and to the expected sustainable benefits of the projects/categories. The Issuer has also committed to report on material development related to the projects, including ESG controversies.
- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Green Expenditure Categories.
- ⇒ The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible categories will be disclosed publicly.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Clean transportation	ADVANCED	States have a key role in reducing CO2 emissions and pollution by financing alternative modes of transport and improving fuel efficiency in the transport sector (which remains one of the most energy intensive and polluting sectors). The expenses include financing road public transport, maritime transport, port infrastructure to stimulate wind turbine manufacturing, sustainable aviation fuel, funds that support the electrification of vehicles, expansion of hydrogen fuelling stations as well as Electric Vehicle infrastructure, national cycling trainings, amongst others. The vast majority of expenditures covers net zero emissions transportation (Electric or ultra-low emission vehicles, electrified rails, electrified public transportation, cycling). Some expenditures are associated with R&D towards decarbonisation of the aviation and maritime transport sectors and are in line with the UK's commitments and related plans to achieve the goal of net zero by 2050, such as the Clean Maritime Plan.
Renewable energy	ADVANCED	According to the International Energy Agency ²² , most of the UK's energy mix is still powered by fossil fuels (oil, gas and coal). Therefore, the country must continue the efforts to decarbonise its electricity production by moving towards renewable sources of energy in order to achieve its net zero goal by 2050. The eligible projects positively impact stakeholders at a local and global level, and all projects follow the best technology available in the sector to contribute to the claimed objective in the location/context of the category. The expenses include a financial incentive scheme to promote the use of renewable heating of homes; R&D in low carbon technologies; funds for the promotion and scaling up of renewable sources of energy, including hydrogen and offshore wind; and financing international projects related to renewable energy.
Energy efficiency	ROBUST	Energy efficiency is a relevant tool to reduce CO2 emissions, responding to the key issue of climate change mitigation. Additionally, the role of states is essential in supporting energy efficiency of both private and public buildings by replacing fossil fuel heating, as this will have a positive impact on relative energy consumption and reduce absolute GHG emissions. The eligible expenses include schemes, grants and funds to decarbonise homes and buildings, as well as a programme to encourage and support investment in heat recovery technologies. However, for expenditures related to the renovation of social housing stock, an area for improvement would be to target a minimum level of EPC rating of B or above, in line with best market practices.

²² <https://www.iea.org/countries/united-kingdom>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Pollution prevention and control	ROBUST	<p>The UK government has a key role in financing programmes for the prevention, control and abatement of pollution, including national air pollution which constitutes a key environmental issue for the UK. As such, financing programmes to reduce emissions from energy intensive industries and waste sectors, as well as financing relevant technologies, are relevant to address this environmental challenge. The category includes expenses to support the UK steel industry to become more energy efficient and decarbonise, the construction of Carbon and Capture Storage (CCS) plants and the setting up of an Emission Trading System. However, area for improvements are the potential exclusion of CCS systems from coal/oil/gas assets (including extraction, processing and refinery); and setting relevant thresholds for the application of gas-powered energy generation in high emitting sectors (e.g. steel, cement) and the transport of CO₂ at levels in line with existing national/international standards.</p>
Living and Natural Resources	ROBUST	<p>States have a key role in financing biodiversity and ecosystem protection as private funds are limited in this area. Additionally, water deficit and risks of shortages in the public water supply and the impact of agriculture, energy generation and industry on freshwater ecology are amongst the top risks identified within the UK Climate Change Risk Assessment.²³ The projects and assets to be financed under this category have a long-term approach that seek to contribute to the sustainable management of living natural resources and land, and the conservation of terrestrial and aquatic biodiversity in specific areas of the country where the need has been identified. This category also includes projects and assets that seek to efficiently manage water and address potential risks related to climate change and adverse weather conditions, which will have positive long-term impacts. An area for improvement is to exclusively finance expenditure on organic farming in line with internationally recognised standards. Of note, the Portfolio of Eligible Green Expenditures to be financed by the inaugural Green Financing issuance does not include any expenditure related to wastewater management under this category.</p>
Climate change adaptation	ADVANCED	<p>The UK is vulnerable to the impact of climate change, particularly to flooding and coastal change causing risks to communities, businesses, and infrastructure. As such Climate Adaptation projects and research that aims to increase resilience and adaptive capacity are highly relevant, and have a positive impact on all relevant stakeholders, with little to no anticipated negative impacts. Expenditures also include financing international projects addressing climate adaption thereby contributing to international efforts on this climate challenge.</p>
OVERALL ASSESSMENT	ROBUST	

²³ Please refer to Chapter 5, section 5.3, of the UK's 7th National Communication to the UNFCCC: [https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/19603845_united_kingdom-nc7-br3-1-gbr_nc7_and_br3_with_annexes_\(1\).pdf](https://unfccc.int/files/national_reports/annex_i_natcom/submitted_natcom/application/pdf/19603845_united_kingdom-nc7-br3-1-gbr_nc7_and_br3_with_annexes_(1).pdf)

ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental and social risks associated with the Eligible Projects is considered advanced.

Integration of ESG factors in the Public Tendering Process

The UK Public Contracts Regulations 2015²⁴ requires that contracting authorities follow general principles during the process of awarding contracts. This indicates that contracting authorities may decide not to award a tender on the basis that it does not comply with applicable obligations in the fields of environmental, social and labour law established by national law, collective agreements or by the international environmental, social and labour law provisions listed in Annex X²⁵ to the Public Contracts Directive.

Furthermore, as part of the UK's wider procurement policy, the Government Buying Standards (GBS)²⁶ include a set of minimum mandatory standards that all central government departments and related organisations must comply with, which ensure that environmental and social factors are integrated into public procurement.

In addition, there are different policies that reinforce UK public procurement regulations and initiatives in terms of ESG considerations as well as systems in place to prevent ESG risk in tender processes, including:

- 'Procurement Policy Note 06/20: taking account of social value in the award of central government contracts'²⁷ which provides a Social Value Model to guide and consider the additional social benefits of the government's commercial activities.
- 'Procurement Policy Note 09/16: Procuring Growth Balanced Scorecard'²⁸ which provides guidance for all construction, infrastructure and capital investment procurements with a value over £10 million on how to adopt a balanced scorecard method that takes into account economic, environmental or social considerations in the procurement approaches.
- 'Public Services (Social Value) Act 2012'²⁹ which mandates all UK contracting authorities to consider at the pre-tender stage how the procurement may improve relevant economic, environmental or social well-being, how such improvement might be secured and whether a consultation is required.
- Procurement Policy Note 08/16³⁰ provides the standard selection questionnaire which requires suppliers to self-declare against the list of mandatory and discretionary exclusions set out in the Public Contract Regulations 2015. Under the general principles of this regulation, contracting authorities must also ensure the compliance of quality assurance standards and the environmental management standards of economic operators by requesting relevant evidence including certificates³¹.
- Procurement Policy Note 04/15³² sets out government policy to ensure that bidders' past performance is considered in major government procurements. Suppliers are also encouraged to follow a Supplier Code of Conduct³³, which sets out the standards and behaviours expected of the UK government's suppliers, and covers

²⁴ Please refer to Chapter 2, sub-section 7, of the UK Public Contracts Regulation:

<https://www.legislation.gov.uk/ukxi/2015/102/part/2/chapter/2/crossheading/conduct-of-the-procedure-choice-of-participants-and-award-of-contracts/made>

²⁵ <https://www.legislation.gov.uk/eudr/2014/24/annex/X>

²⁶ <https://www.gov.uk/government/collections/sustainable-procurement-the-government-buying-standards-gbs>

²⁷ <https://www.gov.uk/government/publications/procurement-policy-note-0620-taking-account-of-social-value-in-the-award-of-central-government-contracts>

²⁸ <https://www.gov.uk/government/publications/procurement-policy-note-0916-procuring-for-growth-balanced-scorecard>

²⁹ <https://www.legislation.gov.uk/ukpga/2012/3/enacted>

³⁰ <https://www.gov.uk/government/publications/procurement-policy-note-816-standard-selection-questionnaire-sq-template>

³¹ <https://www.legislation.gov.uk/ukxi/2015/102/part/2/chapter/2/crossheading/conduct-of-the-procedure-choice-of-participants-and-award-of-contracts/made>

³² <https://www.gov.uk/government/publications/procurement-policy-note-0415-taking-account-of-suppliers-past-performance>

³³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/779660/20190220-Supplier_Code_of_Conduct.pdf

issues such as equality and accessibility, modern slavery, child labour and inhumane treatment, income security, working hours and sustainability. Moreover, service providers must perform their obligations under contract agreements specific to the activity carried out by relevant departments, which may include the respect of environmental, social and/or governance clauses.

- The Crown Commercial Service (primary government body for procurement) and the Government Legal Service³⁴ has developed a revised set of model terms and conditions for major services contracts, which include ESG factors. A violation of contracts including a failure to comply with relevant environmental, social and or governance obligations may lead to the termination of an agreement.³⁵ Any violations or concerns associated with the Eligible Green Expenditures can be reported through the UK's whistleblowing process which is accessible to all public sector institutions, contractors and suppliers.
- Procurement Policy Note 01/19 signposts the process to be followed by civil servants with concerns about perceived wrongdoing in procurement. The National Audit Office (NAO) oversees verifying the government's overall procurement strategy and tender processes. NAO also holds the Crown Commercial Service accountable in meeting relevant standards. Although the NAO reviews and audits projects on an ad hoc basis, it is unclear whether a majority of the Eligible Green Expenditures will be audited.

Environmental Risks

The Issuer reports that all the Eligible Green Expenditures are appraised and valued using the UK's 'Green Book', which is the UK government's central guidance on evaluation and appraisal applied to all proposals concerning public spending, policies, programmes and projects. The Green Book also provides guidance on the design and use of monitoring and evaluation before, during and after implementation. In particular, the Green Book Supplementary guidance on environment³⁶ provides a detailed guidance on integrating natural capital and environmental impacts in policy appraisal through non-market valuation techniques, such as the appraisal of climate risks, and Enabling a Natural Capital Approach (ENCA). In addition, the Green Book Supplementary guidance on the valuation of energy use and greenhouse gas emissions for appraisal³⁷ provides the rules for valuing energy usage and greenhouse gas emissions. Therefore, the Green Book ensures expenditures consider different environmental impacts such as climate risks and resilience, natural capital, GHG emissions and energy consumption.

Regarding the monitoring and correct implementation of environmental evaluation processes, although contingent to each project, the UK's 'Magenta Book'³⁸ provides the governance structure around the responsibilities of evaluation processes, including on monitoring. The evaluations are typically designed and managed by analytical specialists, such as social researchers, economists, operational researchers or statisticians, and the governance arrangements usually involve a policy programme/project board, an evaluation steering group and an expert peer review. This helps ensure the assessment of and compliance with ethical, legal and commercial processes.³⁹

³⁴ <https://www.gov.uk/government/publications/model-services-contract>

³⁵ All government departments are in charge of managing each of the social and environmental risks for their respective departments.

³⁶ The Green Book supplementary guidance on environment is produced by produced by the Department for Environment, Foods and Rural Affairs (DEFRA), in consultation with the Committee on Climate Change (CCC), the National Infrastructure Commission (NIC) and HM Treasury.
<https://www.gov.uk/government/publications/green-book-supplementary-guidance-environment>

³⁷ <https://www.gov.uk/government/publications/valuation-of-energy-use-and-greenhouse-gas-emissions-for-appraisal>

³⁸ The Magenta Book provides guidance on evaluation around the scope, design, conduct, use and dissemination as well as the capabilities required of government evaluators. Please refer to the official documentation for more details:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879438/HMT_Magenta_Book.pdf

³⁹ Please refer to Chapter 5 'Managing an evaluation' of the Magenta Book:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/879438/HMT_Magenta_Book.pdf

Social Risks

Through the use of the Green Book, social factors are also considered in the evaluation processes of the Eligible Green Expenditures. In particular, the Treasury's Five Case Model⁴⁰ which is a required policy framework approach to be applied in investments or spending proposals, and which supports the guidance of the Green Book, provides the means to develop proposals or interventions by optimising the social value produced from the use of public resources, compared to business as usual interventions.

Moreover, the social risks associated with the Eligible Green Expenditures are governed under a series of regulations including the Public Services (Social Value) Act 2012, which ensures that social considerations are taken into account in the pre-procurement stage. In addition, the 'Equality Act 2010' requires government departments to comply with the Public Sector Equality Duty when conducting public procurement by exercising their function in such a way to reduce inequalities and factor in socio-economic disadvantages. Furthermore, the Modern Slavery Act 2015, requires mandatory disclosure by companies around risk management of supply chains, and to which the UK Government also published a statement outlining how it will tackle modern slavery across its supply chain (becoming the first country to do so). 'Procurement Policy Note 05/19: Tackling Modern Slavery in Government Supply Chains' sets out the guidance on actions required to ensure modern slavery risks are identified and managed in government supply chains.

Regarding Health and Safety (H&S) matters, the Health and Safety Executive (HSE) is the authority responsible for monitoring the compliance of Eligible Green Expenditures with H&S regulations through different enforcement methods including: providing written information regarding breaches of law; requiring improvements in the way risks are managed; stopping certain activities where they create serious risks; and recommending and bringing prosecutions where there has been a serious breach of law. Concerning H&S risks of expenditures which may involve construction, clients should follow the guidance on client duties contained in the Approved Code of Practice (ACoP) supporting the Construction (Design and Management) Regulations (CDM) 2015⁴¹, replacing the CDM 2007.

Concerning public participation, the Issuer declares that, where appropriate and possible, Eligible Green Expenditures may require the conduct of consultation processes. The UK's Consultation Principles⁴² provide guidance to government departments on the processes for public consultations, including on the stakeholders which must be engaged.

Ethical Risks

In terms of business ethics, the UK Public Contracts Regulation 2015⁴³ guarantees that Eligible Green Expenditures that may be subject to public procurement are assessed against a mandatory list, with grounds for exclusions that cover different business ethics issues such as corruption, fraud, money laundering and criminal offences. Through the UK's Supplier Code of Conduct, suppliers are also expected to adhere to anti-corruption and anti-money laundering regulations, adhere to the UK Corporate Governance Code⁴⁴, report conflicts of interests, ensure prompt payments in their supply chains, amongst others. In addition, the Public Contracts Regulation also requires for contracting authorities to insert provisions in all public contracts to ensure prompt payment through the supply chain, ensuring fairness throughout the public procurement supply chain.

Moreover, the UK Government has introduced a series of measures as part of its Anti-Corruption Strategy⁴⁵ over the years to reduce corruption in public procurement and grants. For instance, the UK applies the Contracting Data

⁴⁰ Please refer to Chapter 3, section 3.22 for more details on the Five Case Model:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf

⁴¹ <https://www.hse.gov.uk/pUbns/priced/1153.pdf>

⁴² <https://www.gov.uk/government/publications/consultation-principles-guidance>

⁴³ Please refer to sub-section 7 of the UK Public Contracts Regulation:

<https://www.legislation.gov.uk/uksi/2015/102/part/2/chapter/2/crossheading/conduct-of-the-procedure-choice-of-participants-and-award-of-contracts/made>

⁴⁴ <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

⁴⁵ The latest UK Anti-Corruption Strategy Plan covers the periods between 2017-2022:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/667221/6_3323_Anti-Corruption_Strategy_WEB.pdf



Standard⁴⁶ (OCDS) in contracts administered by the Crown Commercial Service, which allows the disclosure of public spending data at each stage of a contracting process, ensuring transparency through the publication of awarded contracts and discouraging opportunities for corruption. The Public Contract Regulation has also introduced a reform which requires contractor authorities to advertise public sector opportunities in one place, the 'Contracts Finder' database⁴⁷, and to publish award notices for contracts.⁴⁸

The UK has also introduced policy and guidance on Open Book Contract Management (OBCM)⁴⁹, a structured process for financial transparency between government and suppliers through sharing data on costs, charges, and performance reviews.

Regarding the enforcement of business ethic issues, the Criminal Finances Act 2017⁵⁰ gives law enforcement agencies and partners the capabilities and powers to recover the proceeds of crime, tackle money laundering, tax evasion and corruption, and combat the financing of terrorism. Multiple bodies are responsible for enforcing the UK's anti-corruption and money laundering laws including the National Crime Agency, HMRC, Financial Conduct Authority, and Professional Body Supervisors.

⁴⁶ [https://www.gov.uk/government/publications/open-contracting#:~:text=Open%20Contracting%20Data%20Standard%20\(%20OCDS%20\)&text=Open%20contracting%20means%20all%20data,a%20wide%20range%20of%20users](https://www.gov.uk/government/publications/open-contracting#:~:text=Open%20Contracting%20Data%20Standard%20(%20OCDS%20)&text=Open%20contracting%20means%20all%20data,a%20wide%20range%20of%20users).

⁴⁷ <https://www.contractsfinder.service.gov.uk/Search>

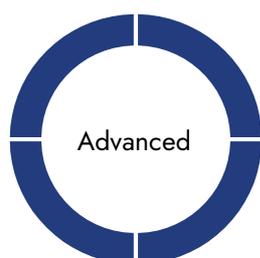
⁴⁸ <https://www.gov.uk/guidance/public-sector-procurement-policy>

⁴⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/525282/ppn_open_book_final.pdf

⁵⁰ <https://www.gov.uk/government/collections/criminal-finances-act-2017>

ISSUER

Level of ESG performance



According to the *Sovereign Sustainability Rating* © last updated by V.E (Vigeo Eiris) in November 2020, the United Kingdom of Great Britain and Northern Ireland (the UK) received a rating of 81/100 which indicates an overall advanced sustainability performance. The UK ranks 8th out of 178 countries and 7th out of 37 OECD countries⁵¹ rated by V.E.⁵²

V.E's assessment of the Issuer's sustainability performance is based on publicly available information and statistics derived from sources that have been agreed for use in the data collection and rating methodologies for the Sovereign Sustainability Rating.

The UK has an advanced performance across all three pillars: Environmental Responsibility (76/100), Social Responsibility (80/100), and Governance Responsibility (86/100).

In response to V.E's rating, the Issuer has provided additional information and more recent data reported in the UK Government's policy publications, which suggest recent improvements in some areas. Regarding the Environmental pillar, the Issuer has indicated that the UK has demonstrated long-term improvements in several biodiversity areas including sustainable fisheries, reduction of air pollution, land management and recovery and wildlife protection, as outlined in government policies such as the UK's Biodiversity Indicators 2020⁵³, the 25 Year Environmental Plan⁵⁴ and the 10 Point Plan⁵⁵. In addition, the UK Government has commissioned the Dasgupta Review⁵⁶ to inform government policy on how to factor in nature and biodiversity in future economic decision-making. Regarding the Social pillar, the Issuer has indicated that several actions have been taken towards improving the status of gig economy workers in the UK. Specifically, a UK Supreme Court ruled out in February 2021 that US company Uber must treat drivers in the UK as workers, rather than self-employed⁵⁷. British-Dutch company Just Eat has announced plans to offer more than 1,000 UK workers benefits including hourly wages, sick pay and pension contributions.⁵⁸

⁵¹ There are 37 countries that are members of the Organization for Economic Cooperation and Development (OECD): Australia, Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Source <https://www.oecd.org/about/members-and-partners/>. All these countries are covered by V.E in the Sovereign Sustainability Rating.

⁵² Note: The Issuer has not been subject to a review of its ability to mitigate sustainability risks based on the review of stakeholder opinion.

⁵³ The UK Biodiversity Indicators 2020

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926506/UKBI-2020-A.pdf

⁵⁴ The UK 25 Year Environmental Plan https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693158/25-year-environment-plan.pdf

⁵⁵ The UK 10 Point Plan

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936567/10_POINT_PLAN_BOOKLET.pdf

⁵⁶ The Dasgupta Review 2021

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf

⁵⁷ Uber drivers are workers not self-employed, Supreme Court rules, 19 February 2021 <https://www.bbc.co.uk/news/business-56123668>

⁵⁸ Just Eat offers hourly wages in UK gig economy shake-up, 09 December 2020 <https://www.ft.com/content/352e3c09-7ce3-466a-b941-921f0d3906c7?segmentId=bf7fa2fd-67ee-cdfa-8261-b2a3edbf916>

This additional information however cannot be incorporated in the UK's rating given that it is derived from sources which have not been agreed for use in our data collection and rating methodologies for the Sovereign Sustainability Rating.

DOMAIN	COMMENTS	OPINION
Environmental Responsibility	<p>The UK has an advanced performance in the Environmental Responsibility pillar, with a score of 76/100. The country ranks in the top quartile in V.E's rated sovereign universe (7th out of 178).</p> <p>At the time of the evaluation, the UK has ratified all the international environmental conventions included in our rating framework, including the Paris Agreement, the Convention on Biological Diversity, the United Nations Framework Convention to Combat Desertification, the Stockholm Convention on persistent organic pollutants and the Aarhus Convention on access to environmental justice.</p>	Advanced
	<p>In its 2020 National Determined Contribution (NDC), the UK is committing to reduce economy-wide GHG emissions by at least 68% by 2030, compared to 1990 levels.⁵⁹ Like most highly industrialised countries, the UK has to accelerate its energy efficiency efforts and the transition to renewables. The UK has the seventh lowest carbon intensity per unit of economic output (0.13 kg per PPP USD of GDP⁶⁰) and the 15th lowest CO₂ emissions per capita (5.8 metric tons in 2016⁶¹) in the OECD group – however, both metrics show improving trends over the last ten years. The production of electricity from renewable sources, excluding hydropower, (23% in 2015) is the tenth highest, although the share of renewables in total energy consumption (8.7% in 2015) fares the fifth lowest in the OECD group.⁶²</p>	Robust
	<p>Areas related to urban air pollution, preservation of water resources, protection of threatened species and transition to green growth also need improvement. Urban pollution levels are below average compared to OECD peers – e.g. the UK's annual mean levels of fine particulate matter (PM_{2.5}) in cities (population weighted) was 10.5 microgram/m³ in 2016.⁶³ Renewable internal freshwater resources per capita are the eleventh lowest among the OECD economies at 2,195 cubic meters.⁶⁴</p> <p>Regarding biodiversity protection, the country has developed a reasonable coverage of protected areas aimed to safeguard its rich terrestrial and marine biodiversity. Compared to its OECD peers, the UK has an overall high proportion of sites that are important for terrestrial biodiversity which are covered by protected areas (83% in 2019⁶⁵). However, the country's rate of biodiversity loss has continued to increase over the years, as shown by the Red List Index's deteriorating long-term trend (0.78 in 2020 from 0.85 in 2000).⁶⁶</p>	Limited
	<p>Intensified efforts are also necessary in areas related to sustainable agricultural practices and promotion of green taxation and R&D. Compared to OECD peers, the UK's fertiliser consumption is relatively high at 245.6 kilograms per hectare of arable land.⁶⁷ Conversely, the UK's environmentally related R&D as percentage of total government R&D and environmentally related taxes (as a share of GDP) fall within the OECD average.</p>	Weak

⁵⁹ United Kingdom of Great Britain and Northern Ireland's NDC, 2020

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/United%20Kingdom%20of%20Great%20Britain%20and%20Northern%20Ireland%20First/UK%20Nationally%20Determined%20Contribution.pdf>

⁶⁰ Source : <https://data.worldbank.org/indicator/EN.ATM.CO2E.PP.GD>

⁶¹ Source : <https://data.worldbank.org/indicator/EN.ATM.CO2E.PC>

⁶² Source : <https://data.worldbank.org/indicator/EG.ELC.RNWX.ZS>; <https://data.worldbank.org/indicator/EG.FEC.RNEW.ZS>

⁶³ Source : <http://unstats.un.org/sdgs/indicators/database/?indicator=11.6.2>

⁶⁴ Source : <https://data.worldbank.org/indicator/ER.H2O.INTR.PC>

⁶⁵ Source : <https://unstats.un.org/sdgs/indicators/database/>

⁶⁶ Source : <https://unstats.un.org/sdgs/indicators/database/>

⁶⁷ Source : <https://data.worldbank.org/indicator/AG.CON.FERT.ZS>

DOMAIN	COMMENTS	OPINION
Social Responsibility	<p>The UK's performance in the Social Responsibility pillar is also advanced, with a score of 80/100. The country ranks in the top quartile in V.E's rated sovereign universe (10th out of 178).</p> <p>The UK has high enrolment rates for both primary and secondary education. Government spending on education, which amounted to 5.4% of GDP (2017), is the tenth highest in the OECD group.⁶⁸ Pre-pandemic total labour force and youth unemployment rates were lower than the OECD average and showed improving long-term trends. However, youth unemployment remains particularly high, with over 11% of total labour force of ages 15 to 24 recorded as unemployed in 2019.⁶⁹</p> <p>Income inequality is also high, with a Gini coefficient of 0.37 (2017), the seventh highest in the OECD group, and poverty levels which have remained stable over the last ten years.⁷⁰ The UK has ratified most ILO Conventions safeguarding workers' rights, except with respect to minimum wage fixing. According to the 2020 International Trade Union Confederation (ITUC) Global Rights Index, the UK had a rating of 3 over 5 which translates into "regular violations of workers' rights".⁷¹</p> <p>The UK fares below the OECD average in areas related to healthcare accessibility. According to pre-pandemic statistics, the country had a low availability and use of health services, with only 2.5 hospital beds per 1,000 people (2019) and an average density of medical staff.⁷² Regarding gender equality, the UK has satisfactory rates of women in political life and in the labour force.⁷³ Increasing women's access to education and the labour market is identified as a determinant for change by the Sustainable Development Goals (SDGs) in tackling world poverty.</p> <p>The UK has an overall moderate performance in the promotion of healthy lives and access to a balanced nutrition for the areas where there is reported data available to assess performance. Life expectancy at birth is high and mortality rates are low. However, low scores are recorded in areas linked to the reduction of obesity and the harmful use of alcohol. There is inadequate data available to determine the country's efforts to prevent child malnutrition and stunting.</p>	Advanced
		Robust
		Limited
		Weak
Governance Responsibility	<p>The UK's performance in the Governance Responsibility pillar is assessed as advanced with a score of 86/100. The country ranks in the top quartile in V.E's rated sovereign universe (20th out of 178).</p> <p>The UK has ratified fundamental conventions relating to human rights, children's rights, and labour rights such as forced labour, freedom of association and collective bargaining.</p>	Advanced
		Robust

⁶⁸ Source: <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>

⁶⁹ Source: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

⁷⁰ Source: <https://data.oecd.org/inequality/income-inequality.htm>; <https://data.oecd.org/inequality/poverty-rate.htm>

⁷¹ Source: ITUC Global Rights Index 2020 <https://www.ituc-csi.org/ituc-global-rights-index-2020>

⁷² Source: Hospital beds (1,000 people) <https://data.worldbank.org/indicator/SH.MED.BEDS.ZS>; Nurses & midwives per 1,000 people <https://data.worldbank.org/indicator/SH.MED.NUMW.P3>; Physicians per 1,000 people <https://data.worldbank.org/indicator/SH.MED.PHYS.ZS>. WHO estimates 2.5 medical staff per 1,000 people are needed to provide adequate coverage with primary care intervention. https://www.who.int/whr/2006/whr06_en.pdf?ua=1

⁷³ Labor force participation rate, female <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>; Proportion of seats held by women in national parliaments (%) <https://data.worldbank.org/indicator/SG.GEN.PARL.ZS>

DOMAIN	COMMENTS	OPINION
	<p>However, the UK has not endorsed the convention on the rights of migrant workers. The country abolished the death penalty for all crimes.⁷⁴</p> <p>The UK scores high in all the areas related to the promotion of rule of law, public governance, control of corruption and democratic accountability that are measured by the Worldwide Governance Indicators. However, according to V.E's trends analysis, the country's performance has decreased over the long-term in areas that measure political stability, government effectiveness and regulatory quality.⁷⁵</p> <p>The UK ranked as the 42nd most peaceful country in 2019 in the Global Peace Index (GPI) – according to the Institute for Economic and Peace, civil unrest has declined in the UK since 2015, however more than 30 non-violent anti-government protests were recorded each year from 2015 to 2017.⁷⁶ Although its business climate was thoroughly tried in 2020 by both the pandemic and the country's exit from the European Union, Coface finds that the UK's political and economic outlook poses a moderate risk for corporate credit defaults as the economy is expected to slowly rebound in 2021.⁷⁷ The UK's adjusted net savings, including damage from particulate emission pollution (% of GNI) have remained stable over the last ten years, however the low estimates indicate a consistent run down in the country's overall resources and wealth.⁷⁸</p>	<p>Limited</p> <p>Weak</p>

⁷⁴ Source: <https://www.amnesty.org/en/countries/europe-and-central-asia/united-kingdom/>

⁷⁵ Source: Worldwide Governance Indicators (WGI) <https://info.worldbank.org/governance/wgi/>. Vigeo Eiris (V.E) calculates performance trends where underlying historical data is available at the source. V.E calculates trend scores as follows:

- Wherever possible, data is collected back to 1990[1].
- Where information is available for more than two years, a first trend is estimated on the basis of the comparison between the oldest and the most recent values. The trend examines the average annual growth rate. This is called the Historical Data Trend.
- A second trend is then calculated focused on the data ranging from 3 to 7 years before the most recent value. The trend examines the average annual growth rate. This is called the Short-Term Trend.
- The results of both trends are classified as positive (+), neutral (=) or negative (-). Depending on the result of the Historical Data Trend and the Short-Term Trend, up to +15 bonus points or -15 penalty points can be awarded

In these three areas, the U.K obtains a negative trend score of - 10 points.

⁷⁶ The Global Peace Index (GPI) scores 169 countries on a scale of 1-5, where 1 is most peaceful and 5 is least peaceful. Source: https://www.visionofhumanity.org/wp-content/uploads/2020/10/GPI_2020_web.pdf

⁷⁷ V.E (Vigeo Eiris) uses country risk analysis published by Coface to assess the country's business resilience to market risks. Source: <https://www.coface.com/Economic-Studies-and-Country-Risks/United-Kingdom>

⁷⁸ Adjusted Net Saving (ANS) was developed as an indicator to approximate the change in wealth—based on simple economic theory in which savings equals investment, and investment equals the change in wealth. ANS measures gross national savings, adjusted for gains (spending on education) and losses (consumption of fixed capital, depletion of subsoil assets and forests, pollution damages). Source: <https://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS>

METHODOLOGY

In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such, they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

ISSUANCE

Alignment with the Green Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the International Capital Market Association's (ICMA) Green Bond Principles - June 2021 ("GBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of Proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green Bonds standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The Evaluation and Selection Process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contributions to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;⁷⁹
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

ESG risk management for eligible activities

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Level of the Issuer's Sustainability Performance

Scale of assessment of Sustainability Performance: Weak, Limited, Robust, Advanced

V.E has reviewed its Sustainability Sovereign Rating[©], resulting from a continuous improvement process and is based on a permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

V.E's Sustainability Sovereign Rating[©] methodology, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 178 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the Government of the United Kingdom was most recently assessed by V.E in March 2021 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance):

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.

⁷⁹ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

- **Result indicators:** measuring the efficiency of the country's sustainable development actions. V.E gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

V.E'S ASSESSMENT SCALES V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with the Green Bond Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management and using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green Bond Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green Bond Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advanced expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green Bond Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green Bond Principles.

Statement on V.E' s independence and conflict-of-interest policy

Transparency on the relation between V.E and the Issuer: V.E has not carried out any audit mission or consultancy activity for Government of the United Kingdom. No established relation (financial or commercial) exists between V.E and the Government of the United Kingdom. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>

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