

# CITY OF LONDON CORPORATION – GREEN & SUSTAINABLE FINANCE FRAMEWORK

## DNV GL INDEPENDENT ASSESSMENT

### Scope and Objectives

City of London Corporation (henceforth referred to as “City Corporation”) is the municipal governing body for the City of London – known as the Square Mile - and in addition to its local authority functions it manages and supports many important assets and takes responsibility for supporting the financial services industry and representing its interests. City Corporation has created a Green & Sustainable Financing Framework for City’s Cash (“Framework”) under which it can issue securities as well as enter into loan relationships to support investment across the City’s Cash fund.

DNV GL Business Assurance Services Limited (“DNV GL”) has been commissioned by City Corporation to provide a review of the Framework. Our methodology to achieve this is described under ‘Work Undertaken’ below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of Bonds/Loans issued via the City Corporation Framework, the value of any investments, or the long term environmental & social benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

### Responsibilities of the Management of City Corporation and DNV GL

The management of City Corporation has provided the information used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform City Corporation’s management and other interested stakeholders in the Framework as to whether the Framework is aligned with the ICMA Green Bond Principles (GBP) and the LMA Green Loan Principles (GLP). In our work, we have relied on the information and the facts presented to us by City Corporation. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by City Corporation management and used as a basis for this assessment were not correct or complete.

### Basis of DNV GL’s opinion

We have adapted our green bond eligibility assessment methodology to create a City Corporation specific Green & Sustainability Finance Framework Eligibility Assessment Protocol (henceforth referred to as “Protocol”) - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL’s opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a bond/loan must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental & social benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond/loan should outline the process it follows when determining eligibility of an investment using Green & Sustainability Bond/Loan proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a bond/loan should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond/loan investors should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by City Corporation in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a City Corporation specific Protocol, adapted to the purpose of the Framework, as described above and in Schedule 1 to this Assessment;
- Assessment of documentary evidence provided by City Corporation on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of City Corporation's published material with regards to its environmental activities relating to the company;
- Discussions with City Corporation's management, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria.

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

## Findings and DNV GL's opinion

DNV GL's findings are listed below:

### 1. Principle One: Use of Proceeds.

City Corporation intends to use the proceeds of securities issued under the Framework to finance and re-finance projects which fall under the following categories:

- Pollution prevention and control;
- Climate change adaptation;
- Sustainable water and water waste management;
- Environmentally sustainable management of living natural resources and land use;
- Clean and sustainable transportation;
- Decontamination of and renovation of previously contaminated land;
- Building, construction, real estate development and refurbishment, which the City Corporation is satisfied adheres to high-quality, prevailing green and sustainable design, operation and / or maintenance standards; and,
- Renewable energy and energy efficiency.

DNV GL concludes that the eligible categories outlined in the City's Cash's Green & Sustainable Financing Framework are consistent with the categories outlined in the Green Bond Principles and Green Loan Principles.

### 2. Principle Two: Process for Project Evaluation and Selection.

DNV GL reviewed the Framework which describes the process through which projects are evaluated and selected. In summary, following a full and proper assessment, suitable projects that meet the criteria of the City's Cash's Green & Sustainable Financing Framework are reviewed and approved by the relevant committee's such as the Finance Committee, Policy and Resources Committee, Capital Buildings Committee and delegated powers in accordance with the City Corporation's internal procedures.

### 3. Principle Three: Management of Proceeds.

DNV GL can confirm that the proceeds will be tracked internally by Corporate Accountancy: each project will have its own budget and will be assigned internal balance sheet codes within the City Corporation's chart of accounts.

DNV GL has reviewed evidence and confirm the proceeds from sustainable financing will either be temporarily invested through Treasury Management or will be overseen by the Investment Committee whilst awaiting allocation to eligible projects. The City Corporation have committed that investments into any short-term financial instruments are not contrary to the intent of green financing.

### 4. Principle Four: Reporting.

DNV GL can confirm City Corporation has committed to produce annual reporting on the allocation of the expenditure and the balance remaining until the tracked proceeds are redeemed or fully allocated to eligible projects. The report will be published on City Corporation's website and approved by the City Corporation's Finance Committee prior to publication.

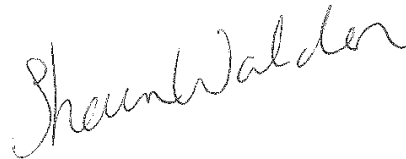
On the basis of the information provided by City Corporation and the work undertaken, it is DNV GL's opinion that the City's Cash Green & Sustainable Financing Framework meets the criteria established in the Protocol and that it is aligned with the stated definition of green & sustainable bonds and loans within the Green Bond Principles and Green Loan Principles.

**for DNV GL Business Assurance Services UK Limited**

London, 20<sup>th</sup> June 2019



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**About DNV GL**

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

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## SCHEDULE 1: CITY CORPORATION SPECIFIC GREEN & SUSTAINABLE FINANCING FRAMEWORK FOR CITY'S CASH ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

| Ref. | Criteria                               | Requirements  | Work Undertaken   | DNV GL Findings   |
|------|--|---|---|---|
| 1a   | Types of Financing Framework           | <p>The bond must fall in one of the following categories, as defined by the Green/Sustainability Bond Principles:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Use of Proceeds Revenue Bond</li> <li>• Project Bond</li> <li>• Securitized Bond</li> </ul> <p>• Green loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects.</p> | <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• Green and Sustainable Financing Framework for City's Cash June 2019</li> </ul>   | <p>The Framework outlines the type of Bonds and Loans expected to be issued under the Framework such as, but not limited to:</p> <ul style="list-style-type: none"> <li>• Committed Bank Facilities,</li> <li>• Public Bonds</li> <li>• Private Placements</li> <li>• Long-term Leases</li> </ul> <p>The specific type of bond/loan will need be further assessed on an individual basis.</p> |
| 1b   | Green & Sustainable Project Categories | <p>The cornerstone of a Green/Sustainable Bond/loan is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.</p>   | <p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• Green and Sustainable Financing Framework for City's Cash June 2019</li> <li>• City Plan 2036 Integrated Impact Assessment Scoping Report</li> </ul> | <p>We conclude that the Framework appropriately describes the proposed utilisation of proceeds. The specific utilisation of proceeds will need be further assessed on an individual issuance basis.</p>   |

| Ref. | Criteria                             | Requirements  | Work Undertaken  | DNV GL Findings  |
|------|--------------------------------------|---|--|--|
| 1c   | Environmental & Sustainable benefits | All designated Green/Sustainable Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer. | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City’s Cash June 2019</li> </ul> | The Framework outlines the expected environmental & sustainability benefits that will be realised by any Bonds/Loans issued under the Framework. Specific quantifiable benefits of each issuance will be agreed on a case by case basis and subject to further assessment. |

## 2. Process for Project Selection and Evaluation

| Ref. | Criteria   | Requirements  | Work Undertaken   | DNV GL Findings  |
|------|--|---|---|--|
| 2a   | Investment-decision process                                | The issuer of a Green Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds  | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City’s Cash June 2019</li> </ul>  | We conclude that the Framework appropriately describes the process of project selection. The specific issuances will need to be further assessed on a case by case basis.                              |
| 2b   | Issuer’s environmental and social and governance framework | In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability. | We reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City’s Cash June 2019</li> </ul> We also performed a desk based study and reviewed environmental and social governance documentation: <ul style="list-style-type: none"> <li>City of London Corporate Plan 2018-23</li> <li>City Plan 2036 Integrated Impact</li> </ul> | We conclude that, from the information provided, City Corporation’s approach to managing environmental sustainability is in line with the objective of the Green & Sustainability Financing Framework. |

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|--|--|--|---------------------------|--|
|  |  |  | Assessment Scoping Report |  |
|--|--|--|---------------------------|--|

### 3. Management of proceeds

| Ref. | Criteria           | Requirements   | Work Undertaken  | DNV GL Findings  |
|------|--------------------|--|--|--|
| 3a   | Tracking procedure | The net proceeds of a Bond/Loan should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green Projects. | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City's Cash June 2019</li> </ul> | We conclude that the Framework commits City corporation to tracking use of proceeds in an appropriate manner and attested to by a formal internal process. |
| 3b   | Tracking procedure | So long as the Bond/Loans are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.  | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City's Cash June 2019</li> </ul> | We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.                                      |
| 3c   | Temporary holdings | Pending such investments or disbursements to eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated  | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City's Cash June 2019</li> </ul> | We conclude that City Corporation has appropriately disclosed how it will manage any unallocated proceeds within its liquidity portfolio.                  |

| Ref. | Criteria | Requirements | Work Undertaken | DNV GL Findings |
|------|----------|--------------|-----------------|-----------------|
|      |          | proceeds.    |                 |                 |

#### 4. Reporting

| Ref. | Criteria             | Requirements   | Work Undertaken  | DNV GL Findings   |
|------|----------------------|--|--|---|
| 4a   | Periodical reporting | In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Bond and where appropriate Loan proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact. | Evidence reviewed: <ul style="list-style-type: none"> <li>Green and Sustainable Financing Framework for City's Cash June 2019</li> </ul> | We confirm City Corporation has committed to produce an annual summary of the use of proceeds until such time as all proceeds raised have been deployed. The report will be publicly available on the City Corporation's website. |



