



Report of Factual Findings

Based on the Pre-Issuance Requirements of the Climate Bonds Standard

13 September 2017

Barclays PLC



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Introduction

Carbon Trust Assurance Limited (**Verifier**) was commissioned by Barclays PLC (**Issuer**) to provide an independent assessment of the readiness of their Green Bond Framework (**Framework**) for a proposed issuance of its first green bonds.

This report presents the Verifiers factual findings on the conformance of the proposed bond and the Issuer's Framework with the pre-issuance requirements of the Climate Bonds Standard Version 2.1. We have not performed any work, and do not express any conclusion, over the performance of the bond outside the scope outlined in this document.

Scope and Approach

This engagement covers the verification and conformance scope of the Verifier's assessment of material aspects of the proposed green bond based on the requirements set out in the Pre-Issuance section of the Climate Bonds Standard Version 2.1:

- Selection of Nominated Projects & Assets
- Internal Processes & Controls
- Reporting Prior to Issuance

Verification Standards Applied

The Verifier conducted this engagement in accordance with the Climate Bonds Initiative's Readiness Assessment Protocol, using agreed-upon procedures, conducted in accordance with the *International Standards on Related Services 4400 (ISRS 4400): Engagements to Perform Agree-Upon Procedures Regarding Financial Information*.

Our Assurance Activities

The Verifier undertook necessary activities to collect sufficient evidence to present factual findings in line with the scope outlined above. The Verifier's review covered an examination of relevant procedures, policies and processes, as well as verification of data provided by the Issuer through the use of a sampling methodology and based on its professional judgment.

Further detail of the activities undertaken by the Verifier are as follows:

- Conducted interviews with the Verifier and key staff responsible for the green bond to obtain an understanding of the organisation, its environmental objectives and intended use of bond proceeds;
- Reviewed the Issuer's Green Bond Framework including processes, systems and controls in place for management of bond proceeds, investment areas for green bond proceeds and intended types of temporary investment instruments for the management of unallocated proceeds;
- Checked the list of projects, which are proposed to be associated with the green bond and their conformance with eligibility requirements specified in Part B of the Climate Bonds Standard; and

- Assessed the cross-matching and prioritisation process of Energy Performance Certificate (EPC) ratings to mortgages.

It is the Verifier's opinion that that the activities undertaken and the supporting evidence collected provide an appropriate justification for the factual findings reached against these procedures.

Issuer's Responsibility

The Issuer is responsible for ensuring that their green bond complies with the requirements of the Climate Bonds Standard, including:

- Designing, implementing and maintaining systems and processes relevant for the management of green bond proceeds;
- Preventing and detecting fraud; and
- Identifying and ensuring that the Issuer complies with laws and regulations applicable to its activities.

Verifier's Responsibility

This report is made solely to the Issuer in accordance with the terms of engagement, which include agreed arrangements for disclosure. The work was undertaken by the Verifier so as to state to the Issuer those matters contained in this report and for no other purpose. The report should not be regarded as suitable to be used or relied on by any party other than the Issuer for any purpose or in any context. Any party other than the Issuer who chooses to rely on the report (or any part thereof) will do so at its own risk. To the fullest extent permitted by the law, the Verifier accepts or assumes no responsibility or liability to any party other than the Issuer for this report.

Limitations & Exclusions

The scope of this verification did not include the following activities:

- Determine which, if any, recommendations of the Verifier should be implemented;
- Perform assessments on data and information beyond the defined reporting criteria and scope of verification activities as defined above.

This report is based on procedures carried out on or before 11 September 2017 and no further procedures were carried out subsequent to that date.

Verifiers' Competence and Independence

In relation to the bond, the Verifier has delivered a feasibility study regarding the Framework and intends to deliver a second opinion on conformance of this framework with the Green Bond Principles and verified against the Climate Bond Standards, which are independently formed.

The Verifier's commitment to impartiality and quality assurance is established in its policies, procedures and management structure. These reflect international standards for quality management and incorporate requirements of the Verifier's accreditation by UKAS to verify greenhouse gases and certify energy management systems.

As a result the Verifier is able to ensure that the results in this report are of the highest quality and reflect an impartial application of the pre-issuance requirements under the Climate Bond Standard. The Verifier is an accredited Climate Bonds Initiative verifier.

The Verifier ensures the selection of appropriately qualified individuals based on their qualifications, training and experience. The outcome of all verification and certification assessments is then internally reviewed by senior management to ensure that the approach is rigorous and transparent.

Summary of Findings

The Issuer is proposing to allocate funding which represents the green bond proceeds to refinance/finance mortgage loans it has made in connection with energy efficient residential properties in England and Wales based on EPC data criteria.

The nominated mortgages must perform within the top 15% carbon intensity threshold within the Department for Communities and Local Government (DCLG) dataset and meet the eligibility requirements specified in part B of the Climate Bonds Standard. The Issuer has demonstrated that associated internal processes and controls required under Clause 2 of Climate Bonds Standard will be in place at the date of the bond issuance and that these would also be available for verification post-issuance.

In the event that any portion of the proceeds of the bond cannot be applied directly to refinance/finance eligible mortgage assets at any time during bond tenure, the Issuer intends to invest the proceeds in a liquidity asset pool comprising temporary investment instruments that are cash, or cash equivalent instruments, within their Treasury function.

Nothing came to our attention in the course of establishing our factual findings that would indicate any non-conformance of mortgages with the eligibility criteria as set out in the Framework. A detailed list of the factual findings are included in Appendix A.

This opinion shall be read in the context of the inherent limitations of the Procedures and this statement's intended use.

A handwritten signature in black ink, appearing to read "M.P. Brown".

Carbon Trust Assurance Limited
13 September 2017



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*This verification report ("**Report**") is given by Carbon Trust Assurance Limited ("**CTAs**") and is addressed solely to the Issuer in accordance with the terms of the engagement contract between us and the Issuer. Those terms permit disclosure to other parties (whether by publication on the website of the Climate Bonds Initiative (the "**CBI**") or otherwise), solely for the purpose of enabling the Issuer to apply for certification to the Climate Bonds Standard by the CBI in connection with the Bonds. We have not considered the interest of any other party in the Report. To the fullest extent permitted by law, we accept no responsibility and deny any liability to any other party for our work, for this statement or for the conclusions we have reached. CTAs will not accept any form of liability for the substance of the Report and/or any liability for damage arising from the use of the Report and/or the information provided in it. As the Report is based on information made available by the Issuer, CTAs does not warrant that the information presented in this Report is complete, accurate or up to date. Nothing contained in this Report shall be construed as to make a representation or warranty, express or implied, regarding the advisability of investing in any securities or any asset whose value is derived from any securities. Any person other than the Issuer who obtains access to the Report or a copy thereof and chooses to rely on it will do so at its own risk. Furthermore, this Report shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the Issuer or the Bond. The issuance and the performance of the Bond Issuer and the Bond is outside the scope of this engagement. We have consented to the inclusion of the Report on the CBI website or in such other manner as CBI shall from time to time use for making verification reports rendered in respect of applications for certification to the Climate Bonds Standard available to the public. We reserve the right to withdraw such consent at any time.*

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Appendix A – Conformance Requirements of Climate Bonds Standard

Clause 1 – Selection of Nominated Projects & Assets

Clause 1.1 – The Issuer shall establish, document and maintain a decision making process which it uses to determine the eligibility of the Nominated Projects & Assets.

Evaluation - The Issuer has prepared a Green Bond Framework that sets out how it proposes to use the expected proceeds of its green bonds to refinance/finance mortgages on energy efficient residential properties in England and Wales based on Energy Performance Certificate (EPC) data.

The Issuer's Framework includes a process for the evaluation and selection of nominated projects and assets as per the criteria set out under Use of Proceeds section of the Preliminary Drawdown Prospectus. Eligible projects will be selected for refinancing/financing based on the carbon intensity metric.

Clause 1.1.1 – This includes, without limitation a statement on the environmental objectives of the bond

Evaluation - The environmental objectives of the bond are to refinance/finance mortgage loans on energy efficient residential properties, demonstrating a broader commitment to managing environmental risks associated with lending.

Clause 1.1.2 – This includes, without limitation a process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part B (Eligibility) of the Climate Bond Standard

Evaluation - The proceeds of the bond will only be used to refinance/finance mortgages on energy efficient residential properties that meet the eligibility requirements specified under the Residential Property guidance for Low Carbon Buildings criteria in Part B of the Climate Bonds Standard. The Issuer's process for evaluation and selection of nominated projects and assets assesses their eligibility with respect to this criteria.

Finding – The final pre-issuance Preliminary Drawdown Prospectus includes an eligibility assessment process for nominated projects and assets and was presented as the use of a “carbon intensity maximum” that ensures eligible assets are in the top 15% of carbon intensity of residential buildings in England and Wales.

The supporting Green Bond Framework also presented a statement of environmental objectives of the bond and was presented in the context of tackling the significant energy and carbon consumption of the buildings sector globally and the need to manage the environmental risks associated with lending.

Part B (Eligibility) requirements for Residential Property guidance for Low Carbon Buildings criteria of the Climate Bonds Standard Version 2.1 were addressed through the meeting of the sector-specific criteria of being in the top 15% for energy performance of the local housing market.

Clause 1.2 – The Issuer shall assess that all proposed Nominated Projects & Assets to be associated with the bond meet the bond’s documented objectives as stated under Clause 1.1 and are compliant under Part B of the Climate Bond Standard.

Evaluation - The expected proceeds of the bond will be allocated towards the refinancing/financing of mortgages on residential buildings all with a carbon intensity below the carbon intensity maximum as calculated under the model identified in the Preliminary Drawdown prospectus and Framework as a proxy for being in the top 15% of residential properties in England Wales, meeting the minimum criteria for Residential Property guidance for Low Carbon Buildings criteria.

Finding – An initial assessment pursuant to the stated environmental goals and eligibility process of proposed Nominated Projects & Assets has been made based on a pool of assets identified by the Issuer. The Issuer has prepared this list of nominated assets based on the expected proceeds of the bond and has assessed that these meet the bond’s objectives. The Issuer is waiting to finalise the complete list of nominated assets, based on the final value of the proceeds. A final completed list of mortgages to be refinanced/financed will be prepared upon which a final assessment can be conducted.

Clause 1.3 – The Issuer shall document the Nominated Projects & Assets which are proposed to be associated with the bond and which have been assessed as likely to be Eligible Projects & Assets. The Issuer shall establish a list of Nominated Projects & Assets which can be kept up-to-date during the term of the bond.

Evaluation - The Issuer has documented and nominated projects and assets proposed to be associated with the bond and these have been assessed as being eligible as per the requirements under Part B of the Climate Bonds Standard.

Finding – At the point of assessment, the Issuer provided a list of nominated mortgage loans which it had assessed as eligible. As agreed with the Issuer, a random sample of five percent of the nominated mortgage loans (selected by the Verifier) was assessed by the Verifier for conformance with the eligibility criteria with no discrepancies being identified.

Clause 1.4 – Nominated Projects & Assets shall not be nominated to other Climate Bonds unless it is demonstrated by the Issuer that distinct portions of the Nominated Projects & Assets are being funded by different Climate Bonds or that the existing Climate Bond is being refinanced via another Climate Bond.

Evaluation - This is the first low carbon buildings green bond issuance by the Issuer and in the UK, hence nominated projects and assets cannot already be nominated to other Climate Bonds. The Issuer's Green Bond Framework confirms that the nominated projects and assets shall not be nominated to other climate bonds unless they demonstrate that distinct portions of the nominated projects and assets are being funded by different climate bonds or that the existing bond is being refinanced via another climate bond.

Finding – According to the Preliminary Drawdown Prospectus and Green Bond Framework, it was established that the nominated projects in connection with the bond will not be nominated to another existing climate bond and will only be nominated to another climate bond of the Issuer in a manner accepted under the Climate Bonds Standard.

Clause 1.5 – The expected Net Proceeds of the bond shall be no greater than the Issuer's debt obligation to the proposed Nominated Projects & Assets, or the Fair Market Value of the proposed Nominated Projects & Assets.

Evaluation - The aggregate amount outstanding under all mortgage loans nominated by the Issuer at the time of assessment is greater than the expected net proceeds of the bonds.

Finding – The lead manager provided evidence of the expected net proceeds of the bond but noted that the final net proceeds might be different. The expected net proceeds amount at the time of assessment was not greater than the aggregate amount outstanding under all nominated mortgage loans at that time. The Preliminary Drawdown Prospectus confirms that the Issuer will ensure the aggregate amount outstanding under the final list of nominated mortgage loans at the time of issuance will be of an amount equal to the final net proceeds of the bonds. At the time of issuance the proceeds may be kept in a liquidity pool within the group until a sufficient aggregate amount outstanding of eligible assets has been allocated to match the final net proceeds.

Clause 2 – Internal Processes & Controls

Clause 2.1 – The systems, policies and processes to be used for management of bond funds and investments made shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:

Clause 2.1.1. – Tracking of proceeds: The Net Proceeds of the bond can be credited to a subaccount, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.

Evaluation - The Issuer will immediately allocate all bond proceeds towards the refinancing of existing mortgages held by the Issuer on residential properties that meet the applicable criteria under the Framework. The net proceeds of the bond can be credited to a subaccount, moved to a sub-portfolio, or be tracked by the issuer in an appropriate manner and documented. The mortgage lending will be done by another company in the Bond Issuer's group (Barclays Bank PLC) to whom the Bond proceeds will be allocated in accordance with normal internal procedures.

Clause 2.1.2. – Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 6.2.

Evaluation - Since the Issuer will immediately allocate all proceeds, there would be no unallocated proceeds at the time of issuance. In the event that there is a shortfall between eligible mortgage assets and bond proceeds, the excess proceeds will be held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function.

Clause 2.1.3. – The issuer has identified an earmarking process that can be used to manage and account for funding to nominated projects & assets and enables estimation of the share of the net proceeds being used for financing and refinancing.

Evaluation – The Issuer has committed in the Preliminary Drawdown Prospectus to publish an annual investor report which will include a number of stratification tables as listed in the Green Bond Framework. The reporting of the tables will serve to account for the ongoing management of the proceeds and the procedures used to generate these tables have been validated by the Verifier.

Finding – The systems, policies, processes, and controls were available for management of bond funds and investments were identified and described as follows:

Tracking of proceeds: All proceeds will immediately be used to refinance existing mortgages that meet the eligibility criteria and procedures for ongoing tracking of proceeds are supported by the Issuer's Internal Procedures Document dated 7 September 2017.

Managing unallocated proceeds: The Issuer confirms in the Preliminary Drawdown Prospectus that any and all unallocated proceeds will be invested in a liquidity pool within the Group. The Verifier has subsequently reviewed this investment pool and identified that the instruments used are cash, or cash equivalent instruments. In addition, an ongoing process to use unallocated proceeds to refinance/finance further eligible assets will be put in place by the Issuer.

Earmarking funds to Nominated Projects & Assets: At the point of issuance all proceeds are expected to be used to refinance existing eligible assets held by the Issuer. Procedures identified in the Issuer's Internal Procedures Document dated 7 September 2017 will be put in place such that there are monthly control processes to check the status of funding to nominated assets, whether refinanced or financed.

Clause 3 – Reporting Prior to Issuance

Clause 3.1 – The Issuer shall disclose in the Bond Disclosure Documentation:

Clause 3.1.1. – The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall.

Evaluation - The Issuer's Preliminary Drawdown Prospectus confirms that bond proceeds will be applied to refinance/finance mortgages on certain energy efficient residential properties in England and Wales. This investment area meets the minimum criteria for Residential Property guidance for Low Carbon Buildings criteria.

Clause 3.1.2. – The intended types of temporary investment instruments for the management of unallocated proceeds in accordance with Clause 2.1.2.

Evaluation - The Issuer's Preliminary Drawdown Prospectus confirms that for this bond issuance, all proceeds will be allocated immediately and there would be no unallocated proceeds at the time of issuance. In the event that there is a shortfall between eligible mortgage assets and bond proceeds, the excess proceeds will be held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function.

Clause 3.1.3. – The approach the Verifier has taken to pre-issuance procedures (i.e., whether an Assurance Engagement or an Agreed-Upon Procedures Engagement was undertaken).

Evaluation - The Issuer has appointed a Verifier to undertake an Agreed-Upon Procedures engagement during the pre-issuance stage.

Clause 3.1.4. – Whether periodic Assurance Engagements will be undertaken during the term of the bond to reaffirm conformance with the Climate Bonds Standard, and the expected frequency of any periodic Assurance Engagements

Evaluation - The Issuer's Preliminary Drawdown Prospectus confirms that an approved third party verifier will conduct a post-issuance assurance exercise within a year's time to continue conformance of the bond with the Climate Bonds Standard.

Finding – According to the Preliminary Drawdown Prospectus in Part B, Section 4, the Nominated Projects & Assets fall entirely into Residential Property guidance for Low Carbon Buildings criteria in line with the investment areas listed in Clause 9.1 of the Climate Bonds Standard v2.1. Furthermore the Preliminary Drawdown Prospectus specifies that any unallocated proceeds will be invested in a liquidity pool meeting the requirements of Clause 2.1.2 and that an approved CBI Verifier will validate the Eligible Mortgage Assets and corresponding Framework. The Issuer has committed in the Preliminary Drawdown Prospectus to publish an annual report that will include an independent assurance report, this assurance has not been specified in either the Preliminary Drawdown Prospectus or Green Bond Framework to meet the CBI criteria for Post-Issuance Certification.

Appendix B – List of Documents Reviewed

The list of documents reviewed are presented below:

- Draft Preliminary Drawdown Prospectus dated 30th August 2017.
- Barclays's Green Bond Framework
- Barclay's Internal Procedures Document dated 7th September 2017
- Barclays Mortgage and EPC Dataset Spreadsheet dated 7th September 2017
- Department for Communities and Local Government (DCLG) EPC Database
- SAS Software EPC-Mortgage Cross-matching Code