Yorkshire Building Society

Environmental and Climate Change Risk Policy Overview

Updated March 2023

Contents

YORKSHIRE BUILDING SOCIETY

1. Purpose

The Purpose of the Policy

Yorkshire Building Society (YBS) has a defined Environmental and Climate Change Risk Policy (ECCRP) to manage the Society's environmental and climate change strategy commitments. The ECCRP sets an expectation that Risk Category holders and SMEs consider climate change risk through the implementation of their respective risk management frameworks and policies, ensuring that the impacts of climate change on each Tier 1 & 2 risk are fully understood and managed across the business.

The mandate of this policy covers all YBS environmental and climate change risk activity with respect to legislative and non-legislative requirements and targets. Adherence to the policy by colleagues and contractors will ensure the Society adheres to the legislative requirements set upon them and creates an environmentally efficient, healthy and safe working environment.

The Society's Board and the Executive team recognise the significant risk posed across the Tier 1 risk categories through a failure to address climate change risk as well as not having a clear set of environmental commitments and targets.

Applicable Regulations and Legislation

Key environmental legislation and regulatory requirements that may impact on the Society include (further details of the regulatory requirements are included in the YBS Environmental and Climate Change Risk Management Framework (YBS ECCRMF)):

- Climate Change Act 2008
- CRC Energy Efficiency Scheme Order 2013. Phased out in January 2020, records of compliance must be kept until 2025.
- The Waste (England and Wales) Regulations 2011
- Environmental Protection Act 1990
- Environment Act 1995
- The Waste Electrical and Electronic Equipment Regulations 2006
- The Hazardous Waste (England and Wales) Regulations 2005
- Climate Change (Scotland) Act 2009
- The Waste (Scotland) Regulations 2012
- Energy Savings Opportunity Scheme Regulations 2014
- Minimum Energy Efficiency Scheme 2018
- The Companies Act 2006 – 2013, 2018 and 2022 Regulations
- Prudential Regulation Authority Supervisory Statement SS3/19 (2019)

The regulatory and legislative environment has evolved over recent years, including but not limited to:

- In 2013, regulations required quoted companies to report their annual emissions and an intensity ratio in their Directors' Report;

- In 2018, regulations introduced new carbon reporting requirements known as Streamlined Energy Carbon Reporting (SECR). This took effect from April 2019 and replaced the CRC.

- In 2020, regulations introduced mandatory climate related disclosure within the Annual Report and Accounts. Firms were required to report climate-related financial information in line with Task force for climate related disclosure requirements (TCFD) in the non-financial information statement, renamed the non-financial and sustainability information statement.

- In 2022, regulations built upon TCFD requirements. In line with the UK Government's Roadmap to Sustainable Finance report, firms will be required to embed Environmental, Social and Governance (ESG) risk analysis into their operational thinking and disclose these to customers, regulators and investors. ESG risks will be reported against a UK ESG taxonomy and 'best practice' standard.

SS3/19 (2019) sets out the PRA's approach to managing the financial risks from climate change. The following paragraphs are particularly relevant:

- Firms are required to integrate the physical and transitional risks of climate change into operational business as usual;
- Firms are required to model their expected credit losses as a result of climate change risks over next 50 years against three distinct economic scenarios. The three scenarios provided by the bank of England are; Early policy action; Late policy action and No policy action. The firm is required to conduct the exercise bi-annually; and
- Firms are further expected to explain the opportunities they foresee as a result of climate change.

Following the UK's exit from the EU the EBA defined their approach to the disclosure of ESG-related risks. The PRA and FCA are yet to define their approach to the disclosure of ESG-related risks.

Requirements of the Policy

The requirements outlined in this policy and supporting YBS Environmental and Climate Change Risk Management Framework (YBS ECCRMF) must be understood and followed by all colleagues and contractors. They must work in conjunction with the Society's Environmental Lead, in all aspects of environmental management and strategic decision making, to ensure that controls and procedures are effectively implemented, and legal compliance and achievement of the Society's environmental objectives and targets are met.

2. Scope

This policy applies to all colleagues, including temporary and self-employed contract staff, and all brands and subsidiaries of the Society.

This policy relates to the Society's regulatory and legislative requirements in relation to the environmental management and climate change, also working to create an environmentally efficient, healthy and safe working environment.

3. Definitions

- **Climate Change Transition Risks -** Business-related risks that follow societal and economic shifts toward a low-carbon and more climate-friendly future. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks.
- **Climate Change Physical Risks -** These are either acute or chronic. Acute risks include droughts, floods, extreme precipitation and wildfires. Chronic risks include rising temperatures, the expansion of tropical pests and diseases into temperate zones, and an accelerating loss of biodiversity.
- **Greenhouse Gas -** gases in the earth's atmosphere that trap heat. During the day, the sun shines through the atmosphere, warming the earth's surface. At night, earth's surface cools, releasing heat back into the air. But some of the heat is trapped by the greenhouse gases in the atmosphere.
- **Net-Zero -** State in which the greenhouse gases going into the atmosphere are balanced by removal of gases out of the atmosphere.

4. Policy Statements

The Society recognises the growing importance of climate considerations and specifically the matters of physical and transition risks arising from climate change. To manage these risks, the PRA expects firms to take action in specific areas, as set out in SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks from climate change. The PRA wants to see firms it supervises take a strategic, holistic and long-term approach, considering how climate-related risks might impact all aspects of the risk profile.

The Society has defined climate risk as a cross-cutting risk and developed a programme to define and embed these considerations into its existing Enterprise Risk Management Framework in line with regulatory requirements. Additionally, there is an expectation that Risk Category SMEs consider climate change risk through implementation of supporting risk management frameworks and policies ensuring that the impacts of climate change on each Tier 1 & 2 risk category are fully understood and controlled.

Overarching Principles

The Environmental Sustainability team, within Balance Sheet Management, is responsible for developing and maintaining the Society's approach to environmental and climate change risk, including the YBS Environmental and Climate Change Risk Management Framework.

The Society's approach to environmental and climate change risk must always remain aligned and respond where appropriate to changes in the Enterprise Risk Management Framework (ERMF). For the purpose of clarity, the ERMF will always take precedent.

The Society's Chief Officer Direct Reports (CODRs), which comprises the Directors and Senior Managers, must ensure that environmental and climate change risk management is effectively performed within their areas of responsibility and that local controls are effectively assessed and evidenced.

Purposeful Objectives

The Society's vision is to provide 'Real Help with Real Life' by 'helping all our customers find a place to call home'. As such, the business requires a strong set of environmental standards, risk management frameworks and commitments to help the business deliver on its purposeful objectives, as follows:

- Ensure high environmental standards are integrated into all business operations;
- Comply with all environmental legislation and requirements relevant to the Society;
- Environmental and climate change cost benefit analysis is embedded into the decision making of key business functions;
- Understand the risks and opportunities climate change presents to the Society;
- Ensure environmental and climate change matters are considered when engaging with third parties and procuring goods and services;
- Take account of the environmental concerns and opportunities in the location, design and use of branches and head office buildings;
- Manage the operations of the Society to prevent pollution and the generation of waste; and
- Promote and embed knowledge and awareness of environmental issues and climate change into the culture of the Society.

Regulatory Expectations (SS3/19) – Required Capabilities

YBS has developed capabilities against all of the PRA's requirements published in Supervisory Statement 3/19, these have been set out below:

Governance:

- The Society will embed consideration of the financial risks from climate change into its governance arrangements.
- The Board will understand and assess the financial risks from climate change that affect the Society, and be able to address and oversee these risks within the Society overall business strategy and risk appetite.
- The Society will evidence how it monitors and manages these risks in line with its risk appetite. The Society's risk appetite will include risk exposure limits and thresholds for the financial risks that it is willing to bear.
- The Society will have clear roles and responsibilities for the board and relevant committees in managing these risks. The Board and executive will identify and allocate responsibility for identifying and managing these risks to the most appropriate relevant existing SMF and ensure these responsibilities are included in the SMF's Statement of Responsibilities.

Risk Management:

- The Society will address the financial risks from climate change through its existing enterprise risk management framework, in line with its Board-approved risk appetite.
- The Society will identify, measure, monitor, manage and report on its exposure to these risks. These will be included within policies, management information and risk reporting.

Scenario Analysis:

- The Society will conduct scenario analysis to inform its strategic plans and to determine the impact of the financial risks from climate change on its risk profile and business strategy.
- This scenario analysis will address a range of outcomes relating to different transition paths to a low-carbon economy, and a path where no transition occurs. This analysis will also include a short-term and longer-term assessment of the Society's risk exposure, as well as the impact of these risks upon the Society's solvency and liquidity.

Disclosures:

- In addition to disclosures within the Society's Annual Report and Accounts (within the Strategic Report), the Society publishes an ESG report the Society will consider whether further disclosures are required, in particular, over whether disclosing how such risks are integrated into governance and risk management processes.
- The Society will establish an approach to disclosure, reflective of the distinctive elements of the financial risks from climate change.

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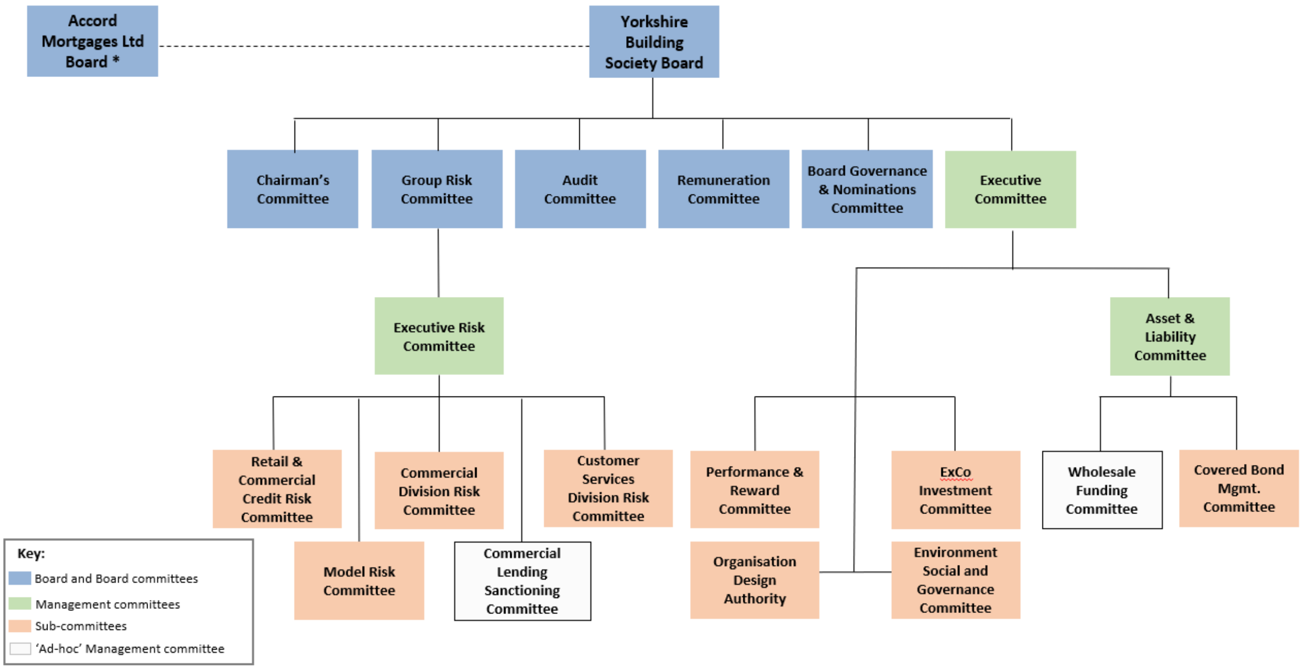
5. Implementation and Monitoring

Implementation

The Society has a governance structure for environmental and climate change risk management, with defined responsibilities and clear lines of escalation. The Society's committee governance structure is outlined below:



* Whilst Accord Mortgages Limited is a separate legal entity solo regulated by the Financial Conduct Authority (FCA) it is wholly owned by YBS and integrated into the operations of the Group.

To assist the Chief Finance Officer and Chief Risk Officer, who share responsibility for managing the physical and transitional financial risks from climate change (Additional Business Activity ABA11) in implementing this policy, the following committees and forums have a number of responsibilities:

- **Board -** Board and executive level oversight of climate-related risks and opportunities. The Board has ultimate accountability for all climate change risks and opportunities. The Board meets regularly and is supported through the existing governance structure which manages environmental and climate change risk on a day-to-day basis.

- **Group Risk Committee (GRC) -** A Board Committee with delegated authority to oversee Operational Risk, Compliance & Conduct Risk; Prudential Risk; and Business Risk – Strategy, Appetite and Oversight. Management provides GRC with updates focused on overarching environmental and climate risk-related matters, including but not limited to the approval of the Society's scenario analysis, stress testing and risk appetite with respect to climate.

- **Audit Committee (AC) -** A Board Committee with delegated authority on matters related to financial reporting, internal controls and risk management systems, internal audit and external audit. AC approves all key public disclosures, reviews the assurance surrounding environmental disclosures before publication and considers the impact of climate change on accounting estimates held within the overall results.

- **Executive Risk Committee (ERC) -** The ERC is a sub-committee of the GRC. It has delegated authority from the GRC to ensure the Society's balance between seeking opportunity and managing risk is appropriate. Management provides ERC with updates focused on overarching environmental and climate risk-related matters, including but not limited to risk appetite and applicable policies, into which the Society's climate action plan has been integrated.

- **Executive Committee (ExCo) -** The ExCo is a sub-committee of the Board. It receives regular updates on environmental and climate change risk from ALCO and ESGCo and provides review and challenge over all climate risk matters, for example, the Society's climate commitments before these are submitted to the Board.

- **Asset & Liability Committee (ALCO) -** The ALCO is a sub-committee of the ExCo. It is responsible for day-to-day management of the financial risk of climate change and the PRA SS3/19 climate stress testing. Management provides ALCO with updates primarily on the financial risks (physical and transitional) arising from climate change, and consider the resulting challenge posed by stress testing and its impacts. ALCO also receives regular updates on the Society's non-financial ratings agenda (NFRA) performance.

- **Environmental, Social & Governance Committee (ESGCo) -** The ESGCo is a sub-committee of ExCo from which it has delegated authority. The role of ESGCo is to support the Board oversee the delivery of the Society's ESG strategy, ensuring alignment with our purpose ambitions and responsible business priority areas, covering people, environment and operations. Management provides ESGCo with key environmental management updates covering regulation, proposed non-regulatory commitments and wider Society ambitions before these are submitted to ExCo and/or the Board.

- Working groups and forums may be created to support the Director of Balance Sheet Management in the ongoing monitoring and management of environmental risks and the financial risk of climate change.

The policy owner will ensure that the policy is implemented in practice and will inform owners of other related policies where new or significant changes are made to this policy.

This policy and future changes will be communicated via internal communication channels including the Society's internal intranet platform (accessible by all colleagues) and email communication to key stakeholders.

The implementation of this policy will be supported through on-going training, for example, the Board will receive climate change risk management training from relevant third-party providers.

Monitoring

Activities are undertaken across the Society to monitor adherence to the Policy. These activities reflect the adoption of the Society's 'three lines of defence' model and are summarised below:

- The Environmental Sustainability team, within Balance Sheet Management, will monitor compliance across the business against the requirements set out within this policy. The Environmental Sustainability team will develop a framework to monitor and provide relevant and timely updates to committees and forums as required to support the management of risk.

- The Prudential Risk Team is responsible for second line oversight of the financial risk of climate change. Where appropriate, Compliance Monitoring may review the policy's application with regard to Regulatory expectations.

- Internal Audit as the third line of defence provides assurance on the effectiveness of 1st and 2nd Lines of Defence risk management.

6. Approval

The policy must be reviewed at least annually but may be updated more frequently in the event of significant changes to legal/regulatory requirements, related activities and processes, or to the external environment within which the Society operates.

Subject to endorsement from the Policy Sponsor, the policy must be submitted to the Executive Risk Committee (ERC) for formal approval in line with the review frequency or in the event of any interim amendments.

Appendix 1 – Roles and Responsibilities

Policy Owner

The Policy owner is responsible for:

- Developing the policy document, reviewing the policy periodically and in the event of any significant change, ensuring that it always remains up to date.
- Obtaining endorsement for the policy from the Sponsor prior to seeking approval from the relevant Committee.
- Communicating the policy to all affected colleagues, ensuring that adequate supporting training is developed and delivered as required.
- Taking steps to ensure compliance with the policy and report non-compliance to the Policy Sponsor and Enterprise Risk Management team.
- Ensuring the relevant policy guides are aligned to the policy.
- Implementing the Society's environmental strategy.

Policy Sponsor

The Policy sponsor is accountable for all aspects of the policy and responsible for:

- Providing direction to the Policy owner as required.
- Supporting the Policy owner in discharging their responsibilities, specifically ensuring sufficient investment is made available to enable implementation and monitoring of policy adherence.
- Endorsing the Policy prior to it being submitted to the relevant governance committee for approval.
- Being accountable for the Society's environmental direction.

Senior Manager Function (SMF) Responsibilities

PRA SS3/19 confirmed the need to allocate responsibility for identifying and managing financial risks from climate change to the relevant SMF most appropriate within the Society's organisational structure and risk profile and ensure that these responsibilities are included in their Statement of Responsibilities.

In the Board meeting on 26th June 2019, it was agreed that responsibility for managing these risks would be split between the Chief Finance Officer (SMF2) and Chief Risk Officer (SMF4). Statements of Responsibilities and Responsibilities Maps were updated and submitted to the PRA in line with their deadline, 15th October 2019. A new Additional Business Activity (ABA11) management of the financial risks from climate change – has been created (see below). This has been reflected in Statements of Responsibilities and Responsibilities Maps.

Responsibility for managing these risks are split between the Chief Finance Officer (SMF2) and Chief Risk Officer (SMF4), as follows:

Chief Finance Officer	Chief Risk Officer
The CFO is responsible for managing the physical and transitional financial risks stemming from climate change. This includes accountability for leading the development and implementation of:	The CRO has accountability for ensuring the development and implementation of: • A governance framework to ensure that the Board understand and assess the financial risks from climate change which affect the Society,

• Identification, measurement, monitoring and reporting of the financial risks of climate change, in line with our risk appetite including our risk exposure limits and thresholds. • Scenario analysis (including a catastrophe modelling approach) to determine long-term financial risks and assess the impacts on our balance sheet. • Disclosing the financial risks of climate change to the PRA. • **The climate related inputs into the wider ESG reporting owned by the Chief People Officer.**	and address and oversee these risks within our overall business strategy and risk appetite.

Director of Balance Sheet Management

On behalf of the Chief Finance Officer, the Director of Balance Sheet Management is responsible for ensuring the Society has the policies and procedures in place to meet the regulatory obligations associated with managing environmental and climate change risk.

All Colleagues

All colleagues are responsible for:

- Ensuring adherence to the requirements and duties placed upon them by this Policy.
- Taking proactive measures to prevent unnecessary use of energy and have general awareness of any environmental opportunities.
- Taking proactive measures in supporting the communication of environmental goals and aspirations across their Divisions.
- Offering feedback to further the Society's environmental agenda through the Environmental Sustainability team.