YORKSHIRE BUILDING SOCIETY

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ENVIRONMENTAL AND CLIMATE CHANGE RISK POLICY OVERVIEW

Updated March 2024

Contents

1. Purpose

The Purpose of the Policy

The Enterprise Risk Management Framework (ERMF) classifies climate risk as a cross-cutting risk across the Society's identified Tier 1 risk categories. The purpose of the Environmental Climate Change Risk Policy (ECCRP) is to set out the requirements for the Society's approach to environmental and climate risk management. The ECCRP sets out responsibilities for the identification, assessment, and management of environmental and climate risks across each Tier 1 risk category as defined within the Society's ERMF

Applicable Regulations and Legislation

Key environmental legislation and regulatory requirements that may impact the Society include:

- 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 Standards 2018
- The Companies Act 2006 – 2013, 2018 and 2022 Regulations
- Prudential Regulation Authority Supervisory Statement SS3/19 (2019)
- Financial Conduct Authority Listing Rule (LR) 9.8.6 R(8)

The regulatory and legislative environment is constantly evolving. As a result, the Environmental Sustainability Team (EST) hold a central document that is pertinent to upcoming regulation and the potential impacts and actions of the Society.

Requirements of the Policy

The requirements outlined in this policy must be understood and followed by all colleagues and contractors.

All colleagues are responsible for minimising their impact on the environment, while specific teams are responsible for managing the financial risks that climate change poses to the Society. While these risks and their mitigation are embedded and integrated into the Society, there must be sufficient cooperation with Environmental Sustainability Team in all aspects relating to environmental or climate risk management and strategic decision making.

ESG Committee has delegated authority to support the Board in the overseeing and delivery of the Group's ESG strategy, ensuring alignment with the Group's purpose, ambitions, and responsible business priority areas, covering people, environment, and operations.

Asset & Liability Committee (ALCO) is the Society governance committee with responsibility for financial risk management. Under its delegated Board authority, it retains responsibility for monitoring the Society's risk positions and recommending/approving as appropriate, actions. However, committees cannot, in themselves, provide effective day-to-day management or monitoring and therefore individuals/functions mentioned within this document are responsible for ensuring appropriate analysis, monitoring and actions are in place, identified and/or acted upon.

Executive Risk Committee (ERC) is responsible for the oversight of day-to-day risk management activity. It has authority to direct business in relation to mitigating actions and to approve to endorse risk acceptance within defined levels.

2. Scope

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

This policy covers the principles by which the Society manages its climate and environmental regulatory and legislative requirements.

3. Definitions

In line with regulatory and industry definitions, the following definitions apply to this Policy:

- **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.
- **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.
- **Net Zero**: a long-term goal that denotes the practice of reducing CO_2e emissions in accordance with the most current climate science, such as aligning to 1.5 degrees warming.
- **Transition Plan:** incorporates a business' carbon reduction plan with a comprehensive strategy that involves transitioning from the current high-carbon economy to a low-carbon economy.
- **Location vs Market-based emissions:** Location based emissions are calculated using the average emissions intensity of the National Grid, whereas market-based emissions reflect electricity that companies have purposefully chosen or contracted.
- **Time frames:**
    - **Short Term:** 1-5 years
    - **Medium Term:** 5-15 years
    - **Long Term**: 15+ years.
- **Operational Emissions:** The emissions associated from operating to provide the services offered to members and customers. These emissions include the emissions associated with the supply chain.
- **Financed Emissions:** The emissions associated with retail lending, commercial lending, and Treasury activities.
- **The Society**: The Society represents Yorkshire Building Society and subsidiaries.

4. Policy Statements

The Society considers Environmental and Climate Change Risk as a cross cutting risk, meaning the risk impacts all areas of the business. The PRA state in SS3/19 that firms take a strategic, holistic, and long-term approach, considering ECCR in all accepts of the Society's risk profiles. Specifically, the ERMF lays out the expectation of the relevant Tier 1 Risk Category Owners consider ECCR within their own policies to ensure that the risks are fully understood, embedded, and therefore controlled. This policy sets out the expectations for these risk owners.

Overarching Principles

While implementing climate and environmental risk throughout the business, and noting the Society's purpose to provide 'Real Help with Real Life', the following objectives apply:

- Environmental standards integrated into all business operations and decision-making points,

- The Society will comply with all relevant environmental legislation and requirements,
- The risks and opportunities climate change presents to the Society are understood,
- The Society's operations are managed in a way that prevents pollution and the generation of waste,
- Opportunities are taken to embed knowledge and awareness of environmental issues and climate change into the culture of the Society.

The Environmental Sustainability Team (EST) will lead on the delivery of these objectives; however, all colleagues are required to support, and where appropriate, implement actions that support their delivery.

Approach to Net Zero

The Society has made a public commitment to aligning with the UK Government law on reaching Net Zero by 2050. Three commitments have been made:

- Target: Net Zero for Scope 1 and 2 emissions by 2035,
- Ambition: Net Zero for Scope 3 Category 1 – 14 ("operational") emissions by 2050,
- Ambition: Net Zero for Scope 3 Category 15 ("financed") emissions by 2050.

To support these statements, the following principles apply:

- The use of carbon offsetting or carbon credits, of any form, cannot be undertaken without consultation with EST, this includes Employee Value Propositions.
- Decisions relating to the renewal of energy and waste contracts must be discussed with EST.
- Measurement of emissions will be conducted on a location based, carbon dioxide equivalent basis using the most appropriate and up to date methodology.
- The Society's lending operations must be aligned to the Society's climate commitments and overarching strategy. In this regard the Society will not lend directly to the following environmentally damaging and carbon intensive sectors; Oil & Gas, Electric Utilities, Metals & Mining, Chemicals, Quarrying, Landfill, Airlines, Aerospace and Shipping.
- The Society's calculation of Scope 3 Category 15 Financed Emissions must be in accordance with the most recent Partnership for Carbon Accounting Financials (PCAF) Standard. Environmental Sustainability are responsible for ensuring the Standard remains relevant to represent the emissions profile of its Financed Emissions.

As the plan to meeting these targets and ambitions develops, these principles will be expanded.

Financial risks from climate change

The Society has developed capabilities against the PRA requirements published in SS3/19, these are outlined below:

Governance:

- The Board includes one standing item covering EST updates, which Group Risk Committee has two standing items.
- ECCR is included in the Terms of Reference for ESG Co, ERC and ALCO. In addition, the Audit Committee Terms of Reference includes a wider responsibility of reviewing and approving content for the annual ESG report and mandatory environmental disclosures.
- Forums, working groups and Senior Manger Function Accountability as discussed in this document.

Risk Management:

- EST are working with risk owners to implement climate risk considerations into risk policies.
- The Society restricts lending on commercial properties with certain Energy Performance Certificate ratings.
- It is the responsibility of risk owners to determine where risk appetites to capture the impact of climate change on their risk area, are needed.
- Where the risk owner and EST determine a risk worthy of noting, although not yet relevant for risk appetite statements, both parties will work together to collate a climate change dashboard for monitoring.

- EST will work with relevant risk owners to ensure learnings from scenario analysis are reflected in; risk appetite statements, key risk indicators and lending and underwriting requirements.

Scenario Analysis:

- Scenario analysis is used by the Society as a key tool to identify and assess climate-related risk.
- The Society employs a dedicated Climate Modeller within the Model Management & Development (Capital and Credit) team. This team is responsible for the development and running of the climate scenario models.
- Scenario models are run annually as input to the ICAAP and at least every two years to meet the requirements of the Taskforce for Climate-related Financial Disclosures.
- Analysis must cover both physical and transition risks, over a 30-year period, utilising different warming pathways, including one where no transition occurs. These scenarios can utilise industry standard, or be internally derived, if the appropriate governance process has been met.
- The outputs from the Scenario analysis must be presented to the relevant Board subcommittee.
- Scenario outputs will be used to inform strategic decision making where appropriate.

Disclosure:

- The Society will comply with climate related disclosure requirements through publication in the Annual Report and Accounts or ESG Report.
- The Society's approach to disclosure will be proportionate to the relevant disclosure requirements and the materiality of ECCR to the Society.
- The Society's EST and Regulatory Strategy and Change functions are responsible for keeping abreast of upcoming regulatory disclosure requirements that may impact the Society.
- Disclosures must be in line with the governance framework set out within this policy.
- Disclosures must also align to the appropriate standards and methodologies practiced within the wider industry.
- Any environmental related disclosures require approval from EST prior to being released. This includes Non-Financial Rating Agency, Environmental Agency and Investor requests for information.

Policy Trigger Events

EST will review this policy at least annually. Further to this EST have identified the following events that would trigger a review of this policy:

- UK Government's implementation of a new environmental or climate-related regulation that will impact YBS.
- Material or major re-work of existing regulation that is environmental or climate related that YBS currently complies with.
- Independent audit finding in relation to climate related regulation.
- Breach of an environmental or climate-related regulation.

Should a trigger be initiated but no change required to this policy an appropriate version update and note will be applied.

Restatement of Emissions Data

The Society may revise emission information where there is a change to a model, data or underlying methodology that leads to a significant difference in the presentation of our climate commitments, metrics, and the progress therefore toward them.

EST will be responsible for monitoring this with approval to be sort in line with the governance framework within this policy document.

5. Implementation and Monitoring

Implementation

Following approval, this Policy must be made available through the intranet for all colleagues to access. It will also be circulated to the relevant business areas, committee members and attendees. It is maintained as a working document, with a full review being undertaken on at least an annual basis.

The EST take responsibility for circulating to and upskilling relevant risk owners to support the implementation of this policy and will inform owners of other related policies where new or significant changes are made to the policy. 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:

YBS Board	Ultimate accountability for financial risks of climate change and associated responsibilities
Group Risk Committee	Provides climate risk oversight and sets Group risk appetite.
Audit Committee	Approves non-financial disclosures.
Executive Risk Committee	Management of governance framework for climate risk.
Executive Committee	Oversees the implementation of environmental strategy and approval of climate risks
Asset & Liability Committee	Focus on the financial risks arising from climate change.
Environment, Social and Governance Committee	Delegated authority from Executive Committee to support the Board in overseeing the environmental strategy and direction.

The Board assumes ultimate accountability and therefore full responsibility in relation to ECCR to the Society. To support this the Chief Finance Officer and Chief Risk Officer, share responsibility for managing the physical and transitional financial risks from climate change (Additional Business Activity ABA11).

To assist ESG Co. in understanding ECCR and providing relevant updates and progress on ECCR metrics the Society holds an Environmental Sustainability Forum (ESF) bi-monthly. Further to this, to ensure a thorough understanding of the Society's risk profile the Climate Change Risk and Strategy Working Group (CRWG) and the Environmental Sustainability Working Group (ESWG) each feed direct reports to the ESF. A breakdown of the roles and responsibilities of the ESF, CRWG and the ESWG are detailed below.

ESF - ESF brings together directors and senior leaders from across the Society to drive climate strategy and challenge approach and deliveries prior to presentation at ESG Co.

CRWG - CRWG utilises SMEs from the across the Society to deliver tactical and strategic change with regards to understand and reducing our exposure to the physical and transitional risks of climate change alongside, the reduction of financed emissions.

ESWG - ESWG consists of SMEs across the Society to deliver tactical and strategic change with regards to understanding and reducing our operational emissions.

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:

- **1LoD**: EST, within Balance Sheet Strategy & Analytics, will monitor compliance across the business against the requirements set out within this policy. This monitoring will be via the relevant working groups and forums outlined within the Implementation and Governance sections of this policy document.
- **2LoD**: 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.
- **3LoD**: Internal Audit as the third line of defence provides assurance on the effectiveness of 1st and 2nd LoD risk management.

Non-compliance must be reported to the Policy Sponsor and ERM team.

In addition to the above, non-compliance will be relayed through the Society's relevant working groups and forum to ensure appropriate discussion and strategy can be implemented to limit future non-compliance.

6. Approval

The Environmental and Climate Change Risk Policy is owned by Senior Manager – Environmental Sustainability. It is subject to endorsement from the Policy Sponsor prior to being 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:

- Writing the policy document and ensuring that it always remains up to date.
- Reviewing the policy periodically and in the event of any significant change (e.g. legislative, regulatory, organisational, operational etc.).
- Seeking approval/re-approval from the Policy Sponsor and the relevant governance committee.
- Communicating the policy to all affected colleagues, ensuring that adequate supporting training is developed and delivered as required.
- Ensuring steps are taken to meeting compliance with the policy and report non-compliance to the Policy Sponsor and Enterprise Risk Management team.
- Align with, and respond to, changes with the ERMF.
- Ensuring the relevant policy guides are aligned to the policy.

Policy Sponsor

The Policy sponsor is accountable for all aspects of the policy, including:

- 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.

Senior Management Function (SMF) Responsibilities

PRA SS3/19 stated 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 to 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 – was created (see below).

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: • 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.	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, and address and oversee these risks within our overall business strategy and risk appetite.

Chief Officer Direct Reports (CODRs)

CODRs (compromising Directors and Senior Managers) must ensure appropriate management of ECCR within their areas of responsibility. Local controls must be effectively assessed and evidenced. For owners of risk policies, ECCR should be considered in context of their risk.

Where ECCR are not deemed material, this must be documented within their risk policy with appropriate justification.

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, water, and generation of waste.
- Have general awareness of any environmental opportunities and/or risks, and where appropriate, taking action to reduce the Society's exposure to said risks.
- 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.

Defined business areas have responsibility and accountability for delivery of environmental objectives, this includes but is not limited to:

- Property: changes to the Society's owned and leased assets with regards to type and method of energy use; utility and waste contracts.
- Propositions: development of products to ensure the Society can be active in providing solutions to members and customers in their home decarbonisation efforts. This activity will also support the Society's climate commitments.
- Credit Risk: monitoring of underwriting and lending decisions in relation to climate risk ensuring policy compliance in this regard is maintained. Integration of relevant updated lending and underwriting standards/appetites in relation to climate-risk. Monitoring of relevant climate-risk metrics within the lending portfolios of the Society while ensuring appropriate Key Risk Indicators and Risk Appetite Statements w.r.t ECCR are maintained and updated in relation to credit risk.