

Second Party Opinion

Yorkshire Building Society Social Financing Framework

Sept. 3, 2021

Yorkshire Building Society (YBS) is the third largest building society in the U.K., and was the country's ninth largest mortgage lender (by gross amount loaned and number of mortgages) in 2019. YBS provides mortgage services across society and prioritizes lending to underserved population segments. In 2020, YBS advanced £6.2 billion in new loans for owner-occupied homes and £0.7 billion for buy-to-let property, maintaining its about 2.5% share of the U.K. mortgage market.

In our view, YBS' Social Financing Framework, published on Sept. 3, 2021, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2021

Issuer's Sustainability Objectives

YBS' core purpose is to enable underserved segments of the public to receive loans. In line with YBS' strategy to support local communities and its members, its framework outlines the aims of facilitating home ownership for a range of target populations that might otherwise struggle to borrow money. The target populations of borrowers under YBS' social financing framework include first-time buyers, those that are self-employed or on a fixed-term employment contract, individuals seeking to borrow in retirement, and companies or registered providers seeking to provide social housing schemes.

YBS has a comprehensive sustainability-focused agenda to contribute positively to a variety of local social and environmental issues. It is committed to providing access to affordable finance through mortgage loans to individuals underserved by other lenders in the market. To achieve this aim, YBS offers 90% loan-to-value mortgages, with a maximum term of 40 years and maximum borrower age at term end of 80 years, while allowing up to four borrowers per mortgage application.

YBS also seeks to support a greener society through project financing. For example, YBS recently joined the Leeds Climate Commission, which plans to push for greater investment in carbon neutrality to mitigate climate change. These aspirations are in line with YBS' plan to reduce its environmental impact by incorporating environmental standards into its business operations.

YBS has developed a social financing framework to support dedicated funding for loans that bring a positive social impact.

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Second Party Opinion Summary


Use of proceeds

Alignment  YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Score Satisfactory **Strong** Advanced

YBS commits to using the net proceeds of debt instruments issued under this framework to fund eligible social projects that fit into the Social Bond Principles' category of access to essential services (financing and financial services).

Process for project evaluation and selection

Alignment  YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Score **Satisfactory** Strong Advanced

YBS clearly communicates how it will process and approve eligible social projects. YBS will form a social financing working group, which will comprise members from its sustainability, operations, and investment and finance teams, to evaluate and select various social projects. The working group will also compile a list of activities that YBS will not finance, such as those related to weapons.

Management of proceeds

Alignment  YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

YBS commits to track the proceeds allocated to eligible social projects until they have been fully allocated. YBS will monitor the allocation of net proceeds from social debt instruments issued under its social financing framework via its internal accounting and information systems. Finally, YBS specifies how any unallocated proceeds will be temporarily managed.

Reporting

Alignment  YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Score **Satisfactory** Strong Advanced

YBS commits to reporting the allocation of proceeds and the social impact of financed projects on an aggregated basis and until full allocation of the proceeds. An annual social financing report will disclose the allocation of the net proceeds and any social impact resulting from loans financed by the social financing proceeds.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider YBS' overall use of proceeds commitments to be strong.

YBS plans to use its social financing framework to issue covered and unsecured funding, and residential mortgage-backed securities (RMBS). The proceeds of RMBS issued under this framework will be used to finance a pool of owner-occupied home loans originated by Accord, a wholly owned subsidiary of YBS. YBS commits to using an amount equivalent to the net proceeds of an RMBS, or any future social bond issued under this social financing framework, exclusively to finance new and/or existing eligible social projects. In our view, the eligible social projects stated in YBS' social financing framework contribute to the Principles' objective of Access to Essential Services (financing and financial services), as identified by YBS.

The various social projects listed in YBS' framework seek to address specific social issues, such as access to affordable mortgage loans for target populations, which include people on short-term contracts, first-time buyers, and the self-employed. YBS also intends to use the proceeds of any financing issued under this framework to lend to registered providers of social housing, which, in turn, would provide below-market-rate rental properties or shared-ownership schemes to those in need of social housing.

In addition, YBS clearly identifies the social benefits of its eligible social projects, such as giving contractors, self-employed, and first-time buyers access to mortgage financing. YBS links its social projects to specific targets from the U.N.'s Sustainable Development Goals (SDGs) it has identified, which we view as positive.

YBS also commits to disclosing the proportion of funds used for financing and refinancing, and commits to a look-back period of two years or less for eligible social projects, both of which we view as strong characteristics.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance.

 YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Commitments score

Satisfactory

Strong

Advanced

We consider YBS' overall process for project evaluation and selection commitments to be satisfactory.

YBS' social financing framework includes a description of its process to approve and oversee eligible social projects. YBS will form a social financing working group, comprising members of its sustainability, operations, and investment and finance teams, to perform the evaluation and selection process. The group will meet bi-annually and also be responsible for monitoring and, if deemed necessary, excluding potential eligible social projects affected by ESG controversies.

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YBS further commits to adhering to local regulations and lending in accordance with its various policies, such as on ethics and the environment, which we see as being stronger features of the framework. Similarly, its inclusion of relevant sustainability expertise in its social finance working group is, in our view, an advanced feature of the framework.

However, although the framework is clear on what its process for project evaluation and selection will deem eligible for financing, we find that the criteria each target population should satisfy in order to be eligible for financing is not very specific.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

We believe YBS' social financing framework is aligned with the Principles, since it states that all proceeds from any financing issued under this framework will be allocated to eligible social projects and tracked via internal accounting, financial management, and information systems.

YBS has committed to tracking the details of the use of proceeds annually on an aggregated basis. In addition, should any amounts remain unallocated, YBS specifies in the framework how any unallocated proceeds will be temporarily managed in cash deposits or in money market funds.

For collateralized transactions, a specific pool of loans originated by Accord before the issuance will be purchased by the issuer with the proceeds of any RMBS issued under this framework, and these loans will be administered and serviced by YBS. In addition, for its RMBS, covered bonds, and unsecured notes, YBS intends to maintain a portfolio of eligible social projects, such that the portfolio always exceeds the net proceeds of any outstanding debt instruments issued under the framework.

YBS expects to allocate to eligible social projects an amount less than or equivalent to the net proceeds raised by social debt instruments, within a 12-month timeframe after issuance. However, YBS does not disclose the expected timeline for the full allocation of proceeds.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 YBS' social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Disclosure score

Satisfactory

Strong

Advanced

We consider YBS' overall reporting practices to be satisfactory.

YBS has committed to report annually on the allocation of proceeds and, where feasible, on the social impact of eligible social projects for the full term of any debt instrument issued under the framework. This information will be publicly available on YBS' website and separately reported for its social notes and social RMBS.

Allocation reporting will include the total amount of social debt instruments issued during the reporting period, along with the outstanding balance of prior social debt instruments, the amount of allocated and unallocated proceeds, if any, and the gross lending to each borrower segment within the target populations.

Second Party Opinion

A strong feature of the framework, in our view, is that YBS will disclose the progress and impact of loans financed by any debt instruments issued under its social financing framework. We understand that YBS will likely use ICMA's harmonized framework for some of its impact reporting for social bonds, which we view as a strength.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

YBS' social financing framework intends to contribute to the following SDGs:

Use of proceeds/KPI

Access to essential services
(financing and financial
services))



***1. No poverty**



***10. Reduced
inequalities**



**11. Sustainable
cities and
communities**

*The eligible project categories link to these SDGs in the ICMA mapping.

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