SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

Kensington Mortgage Company Limited
4 June 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	• Green Bonds
Relevant standards	• Green Bond Principles (GBPs), as administered by the International Capital Market Association (ICMA)
Scope of verification	• Kensington Green Bond Framework (as of June 2021)
Lifecycle	• Pre-issuance verification
Validity	• As long as Kensington Mortgage Company Limited Green Bond Framework remains unchanged

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Scope of work

Kensington Mortgage Company Limited (''Kensington'' or ''the company'') commissioned ISS ESG to assist with its Green Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. Green Bonds link to Kensington's sustainability strategy[1] – drawing on Kensington's overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Kensington's Green Bond Framework (June 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs).
3. The Eligible categories – whether the projects contribute positively to the UN SDGs and perform against ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 1).

Business overview

Kensington is a UK first lien residential mortgage lender and servicer. It is one of the largest non-bank retail lenders by balance sheet size and one of the largest third-party mortgage servicers in the UK.

Kensington was founded in 1995 and was one of the pioneers of the UK specialist lending market. As of March 2021, Kensington has grown to be one of the largest UK leading specialist mortgage lenders managing £5.1bn of balance sheet assets and employing ~530 full time employees. Kensington's servicing platform is a full service, third party residential mortgage servicing company and Kensington has extensive experience in owner-occupied & buy-to-let mortgage servicing with £10.5bn of assets under management as of March 2021.

Kensington is an established and programmatic sponsor of Residential Mortgage Backed Securities ("RMBS") collateralised by UK mortgages. The existing Finsbury Square platform of RMBS deals is backed by UK owner-occupied and buy-to-let residential loans only originated by Kensington, which are sold to a special purpose vehicle, a public limited company incorporated in England, established for the purpose of holding a portfolio of such loans and financing the purchase of the loans by issuing RMBS bonds to investors.

Each bond issuance is backed by a segregated pool of residential loans and is issued by a newly established Finsbury Square- SPV (''the issuer''). Under Kensington's Green Bond Framework, when applicable, the Issuer will (re)finance the purchase of such a pool of loans through a term non-recourse securitisation of the underlying loan portfolio, involving the issuance of securitised Green Bonds to investors.

[1] Please note that Kensington is not part of the ISS ESG Corporate Rating Universe. Thus, the sustainability profile is an assessment by the analyst in charge of the Financials/Mortgage and Public Sector Finance sector based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on ISS ESG's Corporate Rating but considers ISS ESG Research's methodology.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION[2]
Part 1: **Green Bonds' link to Kensington's sustainability strategy**	Kensington operates as a non-bank specialist mortgage lender. The company is active in originating new mortgages, servicing also third-party assets, and issuing residential mortgage-backed securities (RMBS) in the UK. In February 2020, Kensington launched its first range of environmentally friendly products, the eKo Cashback Mortgage[3], being the first Green mortgage product offered by a specialist mortgage lender in the UK. In May 2021, Kensington launched its next Green mortgage product to continue support the company's green initiative[4]. Kensington intends to develop additional new green products this year to incentivise its customers to buy energy efficient properties and/or renovate existing buildings to improve their environmental performance. While the group will keep on developing in 2021, it has also set a target to allocate more than £800 million to its green range of products between 2021 and 2026. The Use of Proceeds financed through this bond are consistent with Kensington's sustainability strategy and material ESG topics for the company's industry. The rationale for issuing Green Bonds is clearly described by Kensington in its Green Bond Framework.	**Consistent with company's sustainability strategy**
Part 2: **Alignment with GBPs**	The company has defined a formal concept for its Green Bonds regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles (GBPs).	**Aligned**
Part 3: **Sustainability quality of the eligible categories**	The overall sustainability quality of the Selection criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Bonds will (re-)finance eligible asset categories which exclusively include green buildings (residential green mortgages)[5]. This use of proceeds category has a limited contribution to SDG 11 'Sustainable cities and communities'. The environmental and social risks associated with those use of proceeds categories have been well managed.	**Positive**

[2] ISS ESG's evaluation is based on Kensington's Green Bond Framework (June 2021 version), and on the ISS ESG Indicative Corporate Assessment applicable at the SPO delivery date.
[3] This product rewards borrowers that improve the energy efficiency of their home, by granting them a £1,000 cashback if they improve the EPC score of their property by at least 10 points within 12 months of their mortgage completion date.
[4] This product rewards owner-occupied borrowers for purchasing an A or B EPC-rated New Build property by doubling the cashback fee compared to a regular cashback product.
[5] UK owner-occupied or buy-to-let home loans secured by a property having a minimum EPC B rating which represents currently an emissions intensity in the top 15% of residential buildings in England and Wales.

ISS ESG SPO ASSESSMENT

PART I: GREEN BONDS LINK TO KENSINGTON'S SUSTAINABILITY STRATEGY

A. KENSINGTON'S INDICATIVE SUSTAINABILITY PROFILE

Methodological note: Please note that Kensington is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the 'financials/mortgage and public finance sector' sector mainly based on publicly available information. No direct communication between the company and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

Key Issues of the industry

1. Sustainability impacts of lending and other financial services/products
2. Statutory ESG-standards linked to the geographical allocation of the lending portfolio
3. Customer and product responsibility
4. Employee relations and work environment

Indicative ESG risk and performance assessment

Kensington operates as a non-bank specialist mortgage lender. The company is active in originating new mortgages, servicing also third-party assets in the UK and issuing residential mortgage-backed securities (RMBS). By targeting underserved clients, Kensington contributes to financial inclusion, specifically "Access to Essential Services (Banking)" and "Socioeconomic Advancement and Empowerment (Equitable Access to and Control over Assets)". In February 2020, Kensington also launched a green mortgage product to improve energy efficiency of homes. As the company operates solely in the UK, it can be assumed that fairly good environmental and social minimum standards, either set by law or industry agreements, apply to the company's portfolio. Kensington designed underwriting criteria to target specific underserved populations. However, there is no indication of additional guidelines that consider ESG criteria in the credit rating process. In terms of customer and product responsibility, Kensington has taken initial steps to ensure responsible sales practices (e.g., through a complaint handling procedure). Regarding the treatment of clients with debt repayment problems, the company refers to external debt counselling and is committed to consider repossession as a last resort. In addition, the company's information security management system is certified to an internationally recognized standard. Kensington complements the prevailing high labor standards in the UK (relating to e.g., health and safety, work-life balance, freedom of association) with some measures to strengthen diversity and inclusion.

Indicative product portfolio assessment

- **Social impact of the product portfolio**:
  - Kensington primarily offers property financing to underserved clients in the UK. The company aims to improve access to banking services and socio-economic advancement and empowerment through equitable access to and control over assets, in each case by making home loan finance available to applicants who are underserved by high street

lenders using automated scoring processes given some complexity and certain characteristics in their income streams. The majority of its product portfolio consists of owner-occupied homes aimed at this underserved target population.

- **Environmental impact of the product portfolio:**
    - In February 2020, the company began offering green mortgages and thereby contributes to improving the energy efficiency of homes. Through its eKo Cashback Mortgage, Kensington rewards customers with a £1,000 cashback if they improve their energy efficiency EPC (Energy Performance Certificate) rating by 10 SAP (Standard Assessment Points) within 12 months of their mortgage completion date.
    - In May 2021, Kensington launched its next Green mortgage product to continue support the company's green initiative. This product rewards owner-occupied borrowers for purchasing an A or B EPC-rated New Build property by doubling the cashback fee compared to a regular cashback product.
    - Kensington intends to develop additional new green products to incentivise its customers to buy energy efficient properties and/or renovate existing buildings to improve their environmental performance.

Key controversy risk for the industry

The analyst in charge of producing this report conducted a high-level controversy assessment. There is no indication of Kensington being involved in any of the below-mentioned controversies.

Based on a review of controversies logged from 1 January 2019, the greatest risk reported against companies operating in the Finance/Rental/Leasing industry relate to activities that may have adverse impacts on consumers' rights and the environment. This is closely followed by the failure to prevent business malpractice. The top three issues that have been reported against companies within the industry are as follows: alleged failure to assess environmental impacts, deceptive, misleading and fraudulent practices targeting consumers, and failure to prevent bribery. This is closely followed by the alleged failure to respect the right to an adequate standard of living, failure to prevent money laundering and failure to mitigate climate change impacts.

B. CONSISTENCY OF GREEN BONDS WITH KENSINGTON'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the company

In August 2020, Kensington defined and publicly released its first set of ESG targets for its 2020/2021 Financial Year (according to the issuer, it was also a first for a specialist mortgage lender in the UK). The 2020/2021 targets and results are available in a dedicated ESG section on the Kensington investor portal[6] and include:

- Environmental targets (e.g., over the last 12 months, Kensington has reduced its electricity consumption by 23%, decreased the paper generated by the firm by 37% and recycled 84% of its total tracked waste).
- Social targets (e.g., two surveys were sent out to employees and wellbeing scores of 88% and 86% were achieved).

[6] https://investors.kensingtonmortgages.co.uk/esg

- Governance targets (e.g. implementing qualitative targets relating to data protection, corporate risk management, governance structure).

Those targets have been defined by the group to ensure that it is creating a positive impact in both its workplace and the wider community through the following key ESG initiatives that are brought together by the ESG framework:

- Environmental: Action against Climate Change and Green lending[7].
- Social: Committed to financial inclusion, Celebrating the diversity of colleagues, Community engagement and Supporting employees.
- Governance: Managing the group business, Data protection.

Rationale for issuance

As stated above, favoring Green Lending through the development of new green products (to incentivise customers to buy highly energy efficient properties and/or renovate existing buildings to improve their environmental performance) is one of the key ESG initiatives implemented by the group.

By designing the Green Bond Framework and issuing Green Bonds, Kensington is eager to increase its commitment to invest more time and resources to sustainable lending to reduce the carbon footprint of its customers. The proceeds of its Green Bonds will be contributing towards Kensington's target to finance the origination of mortgages secured by green properties and refurbished homes that have improved their energy performance.

It is worth noting that in January 2021, Kensington designed a Social Bond Framework to support one of its other key ESG initiatives: Support financial inclusion by improving access to banking services through equitable access to and control over assets, in each case by making home loan finance available to applicants who are underserved by high street lenders using automated scoring processes given some complexity and certain characteristics in their income streams.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Green Bond Framework with the sustainability objectives defined by the company, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the 'financials/mortgage and public finance sector' sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE COMPANY	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Green residential mortgage loans	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the company's sustainability strategy and material ESG topics for the company's industry. The rationale for issuing green bonds is clearly described by the company.*

[7] Kensington intends to develop additional new green products in 2021 to incentivise its customers to buy energy efficient properties and/or renovate existing buildings to improve their environmental performance. Kensington has the technological and resource capability to underwrite additional green products within its lending platform in the coming years. The Group's target is to allocate more than £800 million to its green range of products between 2021 and 2026.

PART II: ALIGNMENT WITH GREEN BOND PRINCIPLES (GBPS)

1. Use of Proceeds

a. Eligible Green Projects

The cornerstone of a Green Bond is the utilisation of the proceeds of the bond for Green Projects which should provide clear environmental benefits. The GBP explicitly recognise several broad categories of eligibility for Green Projects, including green buildings.

The net proceeds of each Green Bond issued by the Issuer under the Framework will be exclusively applied to (re)finance the Issuer's purchase of portfolios of loans originated by Kensington and to pay certain expenses incurred in connection with the issuance of the Green Bonds. The Issuer will raise finance for the purchase of these loans through a term non-recourse securitisation of the underlying loan portfolio, involving the issuance of securitised Green Bonds to investors.

Where a Green Bond Transaction ("GBT") takes the form of less than all of the tranches of a bond issuance, the green tranche(s) will be clearly designated, with proceeds of the green tranche(s) clearly earmarked and tracked against the Eligible Green Project.

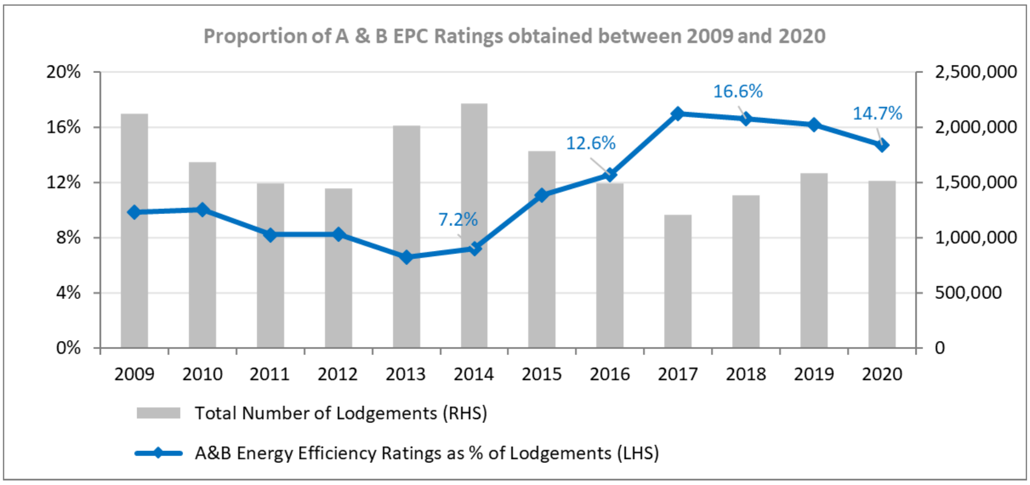
As described in section 3, in cases in which the total amount of Eligible Green Projects on the issue date is less than that of the GBT proceeds, Kensington intends to originate loans (secured by Eligible Green Projects) having an aggregate nominal amount equivalent to the amount of the unallocated proceeds within a maximum of 5 (five) years from the issue date.

Green buildings

Kensington's Finsbury Square platform of RMBS deals is backed by owner-occupied and buy-to-let residential loans that are predominantly secured against property types such as detached, semi-detached or terraced houses, flats/apartments and bungalows located in the United Kingdom. The GBP contemplate buildings which meet regional, national or internationally recognised standards or certifications as eligible Green Projects. For the purposes of the Green Bonds issued by the Issuer under its Framework, and in line with market practice, the minimum standard currently required for a property to be designated as an Eligible Green Project is an EPC B rating as this is currently the minimum EPC rating for a residential property to be considered to have an emissions intensity in the top 15% of residential buildings in England and Wales.[8] According to data from the UK government, the proportion of residential buildings obtaining a grade of B or higher has grown substantially over time (see chart below) as measured by their relative proportion of total EPCs that are lodged annually.[9] The minimum standard required for a property to be designated as an Eligible Green Project for a particular Green Bond will be fixed as at the date of issuance of that Green Bond, but the Framework may be subsequently updated for the purposes of future Green Bond issuances.

[8] Refer to the sector criteria for Buildings under the Climate Bonds Standard at https://www.climatebonds.net/standard/buildings

[9] Ministry of Housing, Communities and Local Government, "Live tables on Energy Performance of Buildings Certificates, (as published on 1 April 2021), at: https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates#epcs-for-all-properties-non-domestic-and-domestic



Source: Kensington Framework, Ministry of Housing, Communities and Local Government

GBP ELIGIBLE CATEGORIES	ELIGIBLE GREEN PROJECT
Green Buildings	UK owner-occupied or buy-to-let home loans secured by a property having a minimum EPC B rating which represents currently an emissions intensity in the top 15% of residential buildings in England and Wales

b. Exclusions

Kensington's strategy and products are targeted towards home loan borrowers and therefore Kensington commits to not knowingly being involved in financing any of the following activities through the proceeds of any GBT: weapons, gambling, tobacco, predatory lending, or fossil fuel production.

Opinion: *ISS ESG considers the Use of Proceeds description provided by Kensington's Green Bond Framework as aligned with the GBPs. The offering of home loan financing to a population acquiring Green Buildings (defined as buildings having a minimum EPC B rating which represents currently an emissions intensity in the top 15% of residential buildings in England and Wales) aligns with the "Green Buildings" category of the GBPs. The environmental benefits of the projects are clear and the risk to finance controversial projects is reduced as the company follows the best market practice by disclosing an exclusion list (including exclusion of fossil fuel backed projects).*

2. Process for Project Evaluation and Selection

The evaluation and selection process will ensure that the proceeds of the Green Bonds issued under the Framework will ultimately be used to originate owner-occupied and buy-to-let home loans secured by a green property as part of the Kensington funding cycle.

Kensington has formed a Green Bond Working Group to carry out the evaluation and selection process. The Green Bond Working Group consists of representatives from each of the following teams:

- Capital Markets
- Analytics

- Legal

The term non-recourse securitisation of loans originated by Kensington will be secured on a pool of loans purchased by the Issuer with proceeds raised from issuance of the securitised Green Bonds. Kensington is responsible for assessing applications, originating and underwriting the loans and for servicing the loan portfolio on behalf of the Issuer.

Opinion: *ISS ESG considers the Process for Project Evaluation and Selection provided by Kensington's Green Bond Framework as aligned with the GBPs. By defining transparent criteria and by involving various stakeholders in the process (various departments are involved in the project evaluation and selection process thanks to the creation of a dedicated Green Bond Working Group), the company follows best market practices. The company provides a documented process to determine that projects fit within defined categories (e.g., bonds will be originated by Kensington, the Green Bond Working Group will use Kensington's internal database that stores EPC rating to constitute the Green Pool of loans that will be refinanced).*

3. Management of Proceeds

Kensington is an established and reputable UK specialist residential mortgage lender and sponsor of RMBS; it is the most active UK RMBS issuer in the UK. Its in-house servicing/origination capabilities are designed to sort, analyse and extract reporting on the unique pool of home loan receivables sold to the Issuer.

Kensington's internal accounting and financial management and information systems will contain relevant information including:

- Key information relating to the Green Bond including: Issuer, transaction date, principal amount of proceeds, settlement date, maturity date, interest margin or coupon, ISIN number etc.
- Details of Use of Proceeds, including:
    - Aggregate amount of GBT proceeds
    - Specific loans sold to the Issuer
    - Estimated environmental impact as described in paragraph 4.b below (where available)
    - Other necessary information

Kensington has implemented internal accounting and financial management and information systems to track and report on the Eligible Green Projects and verify whether the net proceeds of each GBT have been fully allocated.

On the issuance date of the Green Bonds, the Issuer will use the Green Bond proceeds to purchase a specific pool of loans originated by Kensington which has been identified ahead of the issue date (**"Initial Loan Pool"**).

In cases in which the total amount of Eligible Green Projects on the issue date is less than that of the GBT proceeds, Kensington intends to originate loans (secured by Eligible Green Projects) having an aggregate nominal amount equivalent to the amount of unallocated proceeds within a maximum of 5 (five) years from the issue date. In this way, the proceeds of the Green Bond will be used by Kensington as part of its funding cycle to originate new Eligible Green Projects.

For the avoidance of doubt, the new Eligible Green Projects originated post issuance will in most cases, not be transferred to the Initial Loan Pool and may be used in other future securitisations. Importantly, the new Eligible Green Projects may not subsequently count as Eligible Green Projects for the purpose of another GBT while the first Green Bond or GBT is outstanding.

Depending on the structure of the specific Green Bond issuance, the Issuer may be permitted to purchase further pools of loans from Kensington, either:

(i) During an initial period as specified separately for each Green Bond (but expected to be no longer than two interest periods of the Green Bond), by using Green Bond issuance proceeds which were not used to purchase the Initial Loan Pool (**"Prefunding Mechanism"**); or

(ii) During an initial period as specified separately for each Green Bond (but expected to be no longer than 5 years), by reinvesting principal collections received by the Issuer from the mortgage borrowers (**"Revolving Period"**).

Any additional loan purchases through a Prefunding Mechanism or during a Revolving Period (as applicable) may not necessarily meet the criteria for Eligible Green Projects described in the Framework.

The portfolio of loans sold to the Issuer will be administered and serviced by Kensington. Kensington will monitor the performance of the underlying portfolio of loans through its internal management information systems and provide monthly reporting to the cash manager; the cash manager will provide quarterly reporting to all investors as part of the regular RMBS reporting, including details such as performance of underlying loan portfolio, repayment of principal and interest and outstanding note balances in accordance with the principal and interest waterfalls and issuance documentation.

Opinion: *ISS ESG finds that the Management of Proceeds description provided by Kensington aligns with the GBPs. Earmarking and tracking of proceeds is ensured through the company's IT system, while allocation mechanism and timeframe (e.g., 5-year allocation period) are also clearly described. The company is committed to disclose, if applicable, all unallocated proceeds every year while Green Bonds are outstanding.*

4. Reporting

On an annual basis while the Green Bonds are outstanding or in case of material changes, Kensington will prepare and publish a Green Bond Annual Report which will be made available on the Kensington website[10].

The Green Bond Annual Report will contain at least the following details:

a) Allocation Reporting:
- Details of Green Bond(s) issued during the reporting period and outstanding at the reporting date, plus summary terms of GBTs;
- Amount and share of proceeds allocated to Eligible Green Projects within the securitised loan portfolios of GBTs at the annual reporting date including a breakdown by EPC band;

[10] https://investors.kensingtonmortgages.co.uk/

- Amount and share of proceeds allocated to Eligible Green Projects outside the securitised loan portfolios of GBTs at the annual reporting date including a breakdown by EPC band;
- Amount and share of unallocated proceeds (if any) at issuance date and as at the annual reporting date.

b) Impact Reporting:

- Where possible, qualitative and/or quantitative reporting of the environmental impacts resulting from loans financed by the Green Bond proceeds including the following potential impact indicators:
    - # of Eligible Green Projects in each EPC band
    - aggregate principal balance of Eligible Green Projects for each EPC band
    - other characteristics of Eligible Green Projects and related stratification tables

To ensure transparency and integrity, Kensington will create a database to keep track of Eligible Green Projects allocated to each GBT and to control the proceeds. This database will be publicly available to bond investors and updated every month on Kensington's data dashboard available on its data portal.[11]

Subject to the availability of information, the Issuer will look to utilise the impact reporting guidelines as detailed within the ICMA's Handbook – Harmonized Framework for Impact Reporting (December 2020).

The information below will be produced and published on the Kensington website as shown above.

ITEM	FREQUENCY
Green Bond Framework	At issuance of the first Green Bonds, then for any subsequent Framework updates.
Second Party Opinion	At issuance of first Green Bonds issued under the Framework.
External Annual Review of Stratification Tables	Annually, for all outstanding Green Bonds (until full allocation of unallocated proceeds).
Green Bond Annual Report	Annually, for all outstanding Green Bonds (until full allocation of unallocated proceeds).

Kensington will report annually on the allocation of the proceeds to Eligible Green Projects until full allocation has been met.

Opinion: *ISS ESG finds that the reporting proposed by Kensington's Green Bond Framework is aligned with the GBPs. The reporting is provided on both allocation and impact, and the frequency is in line with best market practices. For the impact reporting, the company plans to use the impact reporting guidelines as detailed within the ICMA's Handbook – Harmonized Framework for Impact Reporting reflecting best market practice.*

[11] https://investors.kensingtonmortgages.co.uk/

External review

The Second Party Opinion will be made publicly available on the Kensington website at https://investors.kensingtonmortgages.co.uk/.

An appropriate external review provider will be engaged to review the allocation of the Green Bond proceeds to Eligible Green Projects, the compliance of the allocated loans with the selection process and reported data related to the Eligible Green Projects and summarized in the stratification tables of the Green Bond Annual Report. The Green Bond Annual Report will be made publicly available on the Kensington website.[12]

[12] https://investors.kensingtonmortgages.co.uk/

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SUSTAINABLE BONDS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Eligible categories and using a proprietary methodology, ISS ESG assessed the contribution of the Kensington's Green Bonds to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution

The Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
UK owner-occupied or buy-to-let home loans secured by a property having currently a minimum EPC B rating as this is currently the minimum EPC rating for a residential property to be considered to have an emissions intensity in the top 15% of residential buildings in England and Wales.	Limited contribution[13]	

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE CATEGORIES

Green residential mortgage loans

ASSESSMENT AGAINST ISS ESG KPI	
Prerequisite for Green residential mortgage loans	
✓	Since March 2021, Kensington collects EPC data at the property level for each new application submitted into Kensington's lending platform (EPC grade is then recorded on Kensington's internal mortgage database). Before March 2021, Kensington used the services of a third-party provider called Houseprice AI who was sourcing the EPC data on behalf of Kensington in relation to loans collateralised in RMBS deals since the beginning of 2021.

[13] Assessment using ISS proprietary methodology. A significant contribution to SDG 11 'Sustainable cities and communities' is considered when eligibility criteria take into account the whole sustainability envelope of buildings including energy efficiency, water use, use of sustainable materials, etc.

	The minimum standard required for a property to be designated as an Eligible Green Project is having currently a minimum EPC B rating as this is currently the minimum EPC rating for a residential property to be considered to have an emissions intensity in the top 15% of residential buildings in England and Wales.
Inclusion	
✓	Kensington aims to improve access to home loan finance and facilitate home ownership for a target population comprising viable borrowers that are underserved by high street banks despite having high-quality profile. Moreover, Kensington adheres to the UK Equality Act (2010)[14] that protect all UK citizens against discrimination when buying or renting property.
Responsible treatment of customers with debt repayment problems	
✓	Pre-emptive actions to prevent client debt repayment problems: Kensington completes a number of verifications when originating a new mortgage. Kensington's lending and affordability policies have been shared with ISS ESG. The borrower's affordability calculation is compliant with national regulations/standards (''Mortgage Market Review '' and ''Mortgages and Home Finance: Conduct of Business'')[15,16].
✓	Selling of contractually serviced loans: Kensington does not sell secured claims to external debt collection agents.
✓	Sustainable solutions offered to customers with debt repayment problems: Kensington has a dedicated team that only deals with vulnerable customers called the ''Advanced Forbearance Team''. Based on the information they have from the vulnerable customer, a specialist Kensington agent from the Advanced Forbearance Team will speak with the customer and offer them the most appropriate solution for their situation (e.g., forbearance, payment break). According to the company, Kensington only starts the litigation process to repossess the property when all other forbearance options have been exhausted and sale of the property has become the more sustainable and healthy option for the borrower.

[14] https://www.gov.uk/discrimination-your-rights
[15] https://www.fca.org.uk/publication/thematic-reviews/tr16-04.pdf
[16] https://www.handbook.fca.org.uk/handbook/MCOB.pdf

DISCLAIMER

1. Validity of the SPO: As long as the Green Bond Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the company.
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ANNEX 1: Methodology

ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Kensington's Green Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment "no or limited information is available" either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Kensington (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the company.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Kensington's Green Bonds contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

Kensington commissioned ISS ESG to compile Green Bond Framework SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the Green Bond Principles (GBPs) and to assess the sustainability credentials of its Green Bonds, as well as the company's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles (GBPs)
- ISS ESG KPI set: - Private Mortgages

COMPANY'S RESPONSIBILITY

Kensington's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Bonds to be issued by Kensington based on ISS ESG methodology and in line with the ICMA Green Bond Principles (GBPs).

The engagement with Kensington took place in May/June 2021.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the company themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/

For Information about SPO services, contact:

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Project team

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