

FEBRUARY 2023

## ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) EXCLUSION POLICIES

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WE INVEST OUR MEMBERS' MONEY RESPONSIBLY AND ETHICALLY.

WE RUN OUR BANK FOR PEOPLE, PLANET AND PROFIT.

We don't invest in or lend money to industries that pollute the planet, and the money borrowed from us never comes from polluting industries.

ESG exclusions and policies apply to **100%** of lending and investment<sup>1</sup>, and **100%** of Assets and Liabilities, across the whole balance sheet, and **100%** of all 'non-individual' Company Pty applications.

ESG exclusions are embedded in our lending and investment practices, in our Board approved *Lending Risk*, *Treasury Credit Risk* and *Wholesale funding* policies.

ESG exclusions apply to **13 industries**, including Alcohol, Gambling, Fossil Fuels, Tobacco, and '*Industries that create environmental degradation, human rights abuses and labour rights violations*'.

Specifically this means that we don't invest in, or take money from, the fossil fuel industry – across our total balance sheet.

The Bank Risk Appetite Statement (RAS) states '*The Bank is committed to: Ethical business and social responsibility practices; RIAA Certification for our products, based on ESG Credit Exclusion criteria*'. The Bank has strong and ethical governance frameworks that are the foundation of our business'.

ESG exclusions and policies underpin our *Responsible Investment Association Australasia (RIAA)* Responsible Investment Product Certification, recognised as the gold standard. This covers c.**98%** of all products sold by the Bank: every single retail mortgage, deposit, and wholesale product.

Teachers Mutual Bank Limited is a retail bank with a balance sheet of <b>\$10.44 billion</b> and <b>230,344</b> members as at June 30 2022.
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<sup>1</sup> Excludes secondary trades

# TEACHERS MUTUAL BANK LIMITED

## Funds snapshot

Teachers Mutual Bank Limited is a retail bank with a **balance sheet of \$10.44 billion** and **230,344** members as at June 30 2022. As a member owned bank, essentially what the bank does is take deposits from our members and customers, and lend that money to other members, largely for home loans. The Bank is regulated by APRA (Australian Prudential Regulation Authority) who set a number of requirements for the bank when it comes to investing capital and maintaining liquidity.

Assets. Credit is for consumer lending and can only be provided to individuals or members (This is **\$8.68bn**, mostly mortgages). In order to meet APRA liquidity requirements, the Bank invests or deposits funds with approved eligible counterparties (e.g., *Authorised Deposit Institutions (ADIs)* – other banks, mutuals, credit unions, governments/semi governments, etc.). This is in the form of Medium Term Notes (MTNs), Floating Rate Notes (FRNs) Negotiable Certificates of Deposit (NCDs), Term Deposits (TDs). *Other financial assets*, i.e. ADIs are **\$1.49bn**.

Liabilities. Deposits are mainly Retail deposits (**\$8.60bn**). Other sources are from *Wholesale Sector Funding* (**\$596m**), and *Borrowings* (**\$475m**) from the RBA (repurchase agreements, Term Funding Facility).

## Treasury Credit Risk Management Policy (2216)

### Purpose

This policy establishes the Board's framework for managing Teachers Mutual Bank Limited's (the Bank's) credit exposure arising from its financial markets exposures. The objective of this policy and framework is to contain the potential of losses arising from counterparty default.

### Process

Various lending and investment opportunities are disqualified from the Bank's lending origination business for ESG (Environment Social and Governance) exclusion criteria. The bank does not provide finance (i.e directly lend to, invest in, buy equity or debt) to corporations that operate in these industries;

1. **Alcohol** (production and distribution)
2. **Controversial weapons manufacturing and sales** (cluster munitions, anti-personnel mines, nuclear, biological and chemical weapons, depleted uranium)
3. **Animal cruelty** (testing on animals, live exports)
4. **Gambling** ( products or services or operations and ownership)
5. **Fossil fuels** (coal, oil and gas - exploration for and extraction of reserves, exports, combustion for power generation, major suppliers to the oil, coal and gas industries)
6. **Logging**
7. **Palm oil** (non –RSPO<sup>2</sup> production, distribution and significant ownership)
8. **Pesticides**
9. **Nuclear power** (including uranium mining, excluding medical uranium use)

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<sup>2</sup> The Roundtable on Sustainable Palm Oil (RSPO) was established in 2004 with the objective of promoting the growth and use of sustainable oil palm products through global standards and multistakeholder governance.

# TEACHERS MUTUAL BANK LIMITED

10. **Pornography** (production or ownership or operation or distribution)
11. **Tobacco** (growing and production retailing and sales, packaging)
12. **Industries** that create environmental degradation, human rights abuses and labour rights violations.

## Lending Risk Policy (2236)

### Purpose

Credit risk for Teachers Mutual Bank Limited (the Bank) has two streams—subject to whether it is investing or lending. When the Bank is investing, the credit risk is that a holder of an investment defaults under the investment contract and does not repay the investment and interest in full. When the Bank is lending, the credit risk is that a borrower defaults under their loan contract and does not repay the loan and interest in full. This policy relates to when the Bank is lending.

### Business Objective (1 of 5)

The Bank strives to provide quality services to members via ethical and prudent lending practices that are financially, socially and environmentally sustainable.

### Exclusions

Various lending and investment opportunities are disqualified from the Bank's lending origination business for ESG (Environment Social and Governance) exclusion criteria. Credit is for consumer lending and can only be provided to individuals or members. Therefore the bank does not provide finance (i.e. directly lend to, invest in, buy equity or debt) to corporations that operate in these industries;

1. **Alcohol** (production and distribution)
2. **Controversial weapons manufacturing and sales** (cluster munitions, anti-personnel mines, nuclear, biological and chemical weapons, depleted uranium)
3. **Animal cruelty** (testing on animals, live exports)
4. **Cryptocurrency**
5. **Gambling** (products or services or operations and ownership)
6. **Fossil fuels** (coal, oil and gas - exploration for and extraction of reserves, exports, combustion for power generation, major suppliers to the oil, coal and gas industries)
7. **Logging**
8. **Palm oil** (non –RSPO<sup>3</sup> production, distribution and significant ownership)
9. **Pesticides**
10. **Nuclear power** (including uranium mining, excluding medical uranium use)
11. **Pornography** (production or ownership or operation or distribution)
12. **Tobacco** (growing and production retailing and sales, packaging)
13. **Industries** that create environmental degradation, human rights abuses and labour rights violations.

ESG exclusions described do not apply for the uses derived from the provision of credit to members, for example to purchase alcohol or petrol.

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<sup>3</sup> The Roundtable on Sustainable Palm Oil (RSPO) was established in 2004 with the objective of promoting the growth and use of sustainable oil palm products through global standards and multi-stakeholder governance.

## Wholesale Funding Management Delegation (3205)

### Purpose

Teachers Mutual Bank Limited attracts wholesale funding as an alternative source of funds to diversify funding sources, support and enhance liquidity levels, supplement retail deposits and ensure sufficient funds are available to meet the Bank's loan demand.

### Objectives (1 of 3)

Wholesale funding counterparties are assessed against the Bank's values to run the bank for people, planet and profit (refer to Section 3.5)

### Counterparty approval

1 of 3 points: Wholesale funding will be sourced from wholesale counterparties that are not excluded counterparties in Section 3.5

## 3.5 Environmental Social and Governance (ESG) Exclusion Criteria for Wholesale Counterparties

The Bank does not accept wholesale funding (i.e. cash, term deposits) from, or issue debt securities to, counterparties that directly operate in these industries:

- **Alcohol** (production and distribution)
- **Controversial weapons manufacturing and sales** (cluster munitions, anti-personnel mines, nuclear, biological and chemical weapons, depleted uranium)
- **Animal cruelty** (testing on animals, live exports)
- **Gambling** (products or services or operations and ownership)
- **Fossil fuels** (coal, oil and gas - exploration for and extraction of reserves, exports, combustion for power generation, major suppliers to the oil, coal and gas industries)
- **Logging** (old growth and biodiversity hotspots)
- **Palm oil** (non –Roundtable on Sustainable Palm Oil 1 production, distribution and significant ownership)
- **Pesticides**
- **Nuclear power** (including uranium mining, excluding medical uranium use)
- **Pornography** (production or ownership or operation or distribution)
- **Tobacco** (growing and production retailing and sales, packaging)
- **Industries** that create environmental degradation, human rights abuses and labour rights violations.

The Bank can only assess wholesale market counterparties against exclusion criteria when on-boarding occurs and has no control over counterparties purchasing the Bank's securities in the secondary market.

The Bank's wholesale funding will be reported, on a monthly basis to the CSR Committee.

# TEACHERS MUTUAL BANK LIMITED

The Head of Socially Responsible Banking is responsible for providing guidance on ESG issues to Treasury, ALCo and the Board, to assist with assessment of wholesale funding counterparties.

## Assessing Non individual bank clients

On rare occasions, approximately once a week, members and customers who are not individuals may apply for membership, under the category of 'Company Pty Ltd' . This is managed in the Promapp system and process. 100% of these will be assessed for ESG criteria under this process before membership is approved;

### Onboard a new Non-individual bank client :: | Nintex Promapp®

**Objective** The purpose of this procedure is to detail how to create a Company Pty Ltd account

#### **Validate the non-individual entity**

-Review and seek approval of application from the Head of Socially Responsible Banking on CSR criteria A) send the application details to the Head of Socially Responsible Banking who will review within 2 working days, and their email approval of application is required to proceed.

Non-individual clients can ONLY be on boarded face to face at a branch.