

OCTOBER 2023

ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) EXCLUSION POLICIES

**We invest our members' money responsibly and ethically.
We run our bank for people, planet and profit.**

We don't directly invest in or lend money to industries that pollute the planet, and the money borrowed from us is not sourced from polluting industries.

- ESG exclusions and policies apply to **100%** of lending and investment¹, 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, Wholesale funding and Risk Appetite policies.
- ESG exclusions apply to 12 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 directly invest in, or take money from, the fossil fuel industry – across our total balance sheet.

The Bank Risk Appetite Statement (RAS) states:

'Climate Change (including Corporate Social Responsibility)'

'The Bank has a committed Climate Change and Corporate Social Responsibility (CSR) appetite, supported by strong and ethical governance frameworks that are the foundation of our business. The Bank is committed to: Ethical business and social responsibility practices; RIAA Certification for our products, based on ESG Credit Exclusion criteria; External assessment of our performance against a range of industries and sectors, e.g. B Corp Certification; Continue to develop our progressive position on climate change; and At least annually assess the physical Climate Risk to the Home Loan Portfolio (HLP).'

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

Funds snapshot

Teachers Mutual Bank Limited is a retail bank with a balance sheet of \$10.7 billion and 234,068 members as at 30 June 2023. As a member owned bank, we take deposits from our members and customers, and lend that money to other members, largely for home loans. The Bank is regulated by Australian Prudential Regulation Authority (APRA) 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 members (\$8.8 billion mostly relating to 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, governments/semi governments, etc.). This is in the form of Medium Term Notes (MTNs), Negotiable Certificates of Deposit (NCDs), Term Deposits (TDs), etc. Other financial assets, e.g. ADIs, are \$1.58 billion.

Liabilities. Deposits are mainly Retail deposits (\$8.4 billion). Other sources are from Wholesale Sector Funding (\$1.24 billion).

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** (old growth and biodiversity hotspots)
7. **Palm oil** (non-RSPO² production, distribution and significant ownership)
8. **Pesticides**
9. **Nuclear power** (including uranium mining, excluding medical uranium use)
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. **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** (old growth and biodiversity hotspots)

² 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.

7. **Palm oil** (non –RSPO³ production, distribution and significant ownership)
8. **Pesticides**
9. **Nuclear power** (including uranium mining, excluding medical uranium use)
10. **Pornography** (production or ownership or operation or distribution)
11. **Tobacco** (growing and production retailing and sales, packaging, manufacture of nicotine alternatives and tobacco-based products)
12. **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.

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:

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** (old growth and biodiversity hotspots)
7. **Palm oil** (non–Roundtable on Sustainable Palm Oil 1 production, distribution and significant ownership)

8. **Pesticides**
9. **Nuclear power** (including uranium mining, excluding medical uranium use)
10. **Pornography** (production or ownership or operation or distribution)
11. **Tobacco** (growing and production retailing and sales, packaging, manufacture of nicotine alternatives and tobacco-based products)
12. **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.

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 occasions, approximately once a week, Members and customers who are not individuals may apply for membership, under the category of 'Company Pty Ltd'. These may be, for example individuals setting up SMSFs. This is managed in the Promapp system:

On board a new Non-individual bank client: Nintex Promapp®

All applications are assessed for ESG criteria by the Head of Socially Responsible Banking.

Definition by the Responsible Investment Association Australasia (RIAA)

Negative/exclusionary screening refers to the systematic exclusion of certain sectors, companies, activities, regions or issuers from funds based on certain criteria or ethical lenses. Exclusion criteria often include product categories or sectors (e.g. fossil fuels, weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

<https://responsibleinvestment.org/resources/benchmark-report/>

³ 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.