



gatehousebank

Environment Social Governance (ESG) Policy

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1 Introduction

Gatehouse Bank is a founding signatory of the UN Principles for Responsible Banking (UNPRB). By becoming a founding signatory, we committed to strategically aligning our business to the United Nations' Goals for Sustainable Development, Paris Climate Agreement, and other relevant frameworks.

As a responsible and ethical bank, Environment, Social and Governance (ESG) is at the heart of everything that we do. Whilst ESG is integrated in the overall approach of the Bank, this policy provides an overarching framework of ESG activity and the Bank's approach.

2 Purpose of Policy / Policy Statement

The purpose of the ESG policy is to provide an overarching framework that embeds the consideration of environmental, economic, social and governance factors into the Bank's products, operations, processes, growth, and strategy. Through this policy, we demonstrate the principal areas under ESG, our approach in addressing them and how they are supported through our actions.

3 Applicability of Policy

The scope of the Bank's ESG policy includes both internal (office operations, detailed in our Health Safety and Environment (HSE) Policy) and external ESG impacts including the Bank's value chain.

The Bank engages with stakeholders (internal and external) to help identify areas that are material issues for the bank. Based on survey assessments, the following topics have been selected as key pillars to form the ESG strategy for Gatehouse Bank.

<i>Climate Change</i>	<i>Financial Education & Inclusion</i>	<i>Community Health & Wellbeing</i>	<i>Biodiversity & Deforestation</i>
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There are a number of initiatives the Bank undertakes, which are demonstrated in the Bank's Annual Report, Sustainability Report and the UN PRB Report.

The approach towards ESG will be demonstrated through leadership, integration, stakeholder engagement, due diligence, monitoring and reporting, transparency, and governance. Engaging colleagues in the ESG journey is fundamental to the approach, by creating awareness of ESG topics, colleague volunteering and supporting colleague nominated, local charity of the year.

4 Policy Control Objectives

The scope of the ESG policy encompasses all the risks associated and identified by us as a bank, with enhanced focus on climate related risk and opportunities. The risks associated with climate change has the potential to impact the Bank's risk, related to credit risk, operational risk, physical risk, transition risk and reputational risk. This policy helps to monitor and be proactive in mitigating the potential risks through measures and actions.

The Bank has set up a board-approved Environmental Social and Governance (ESG) Forum, which is chaired by the ESG Lead. The Forum meets quarterly and comprises of a Non-Executive Director, several Executive Committee members (ExCo), Board members and senior managers. The ESG Lead shares progress with regards to the Bank's ESG commitments and the Forum provides direction on the Bank's ESG initiatives as well as discussions on ESG activity across the Bank.

5 Strategies and requirements to achieve Objectives.

The Board is the primary governing body with ultimate responsibility for setting the bank's ESG strategy, in light of the corporate objectives and risk appetite.

At the ESG Forum quarterly meeting, the group consider progress against the objectives and monitor the Bank's performance against the relevant risk appetite, whilst providing timely advice and guidance. The Bank's ESG progress is reported based on the globally approved reporting frameworks and the Bank's Annual Report, Sustainability Report, and the UN PRB Report. This includes targets and commitments, whilst ensuring the regulatory requirements are met the Bank's Board Risk & Compliance Committee (BRCC) also receive regular updates.

Changes in ESG regulations and good practice are reviewed by the ESG Lead in conjunction with the departments represented at the ESG forum to ensure the bank is pro-active in revising any ESG initiatives and associated monitoring in line with its stated appetite and governance framework.

The bank respects and upholds a value of Human Rights, across all of its operations and wider value chain. The bank commits to ensuring the same values are upheld and respected by all its partners, suppliers and external organisations.

Whilst the bank have made commitments and specific targets have been set, all colleagues are responsible in driving ESG through their roles.

6 Financial Risks arising from Climate Change

The Bank's approach to its ESG commitments not only aligns with its ethical values but also the financial risks arising from climate change. Given the responsibilities on the Bank in meeting these commitments the Bank must ensure it has appropriate governance and risk oversight in place. Including, relevant management information to assess, monitor and manage the financial risks from climate change that the Bank may be exposed to, through the design and distribution of the products offered.

Governance and regulation recognise climate change as a risk not only to the environment and economy but also to the stability of the financial system. Physical risks can arise from storms, floods and droughts, whilst transition risks can arise from changes in government policy, international commitments and new technologies aimed at managing the impact of climate risk.

This policy outlines the Bank's approach to managing the financial risks from climate change in line with the Prudential Regulatory Authority's (PRA) expectations as set out in SS3/19 Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

Governance arrangements

- **Board** – sets the climate risk appetite for the bank, delegating responsibility for oversight to the Board Risk & Compliance Committee.
- **Board Risk & Compliance Committee (BRCC)** – oversees the Bank's management strategy and mitigation of financial risks arising from climate change within the risk appetite.
- **Executive Risk Committee (ERC)** – monitors the risk exposure against the approved risk appetite and effectiveness of actions being taken regarding financial risk exposure. This includes the development of new products or changes in product criteria impacting the physical or transitional risk that the Retail Property Finance (RPF) portfolio is exposed to.
- **Customer Department** – first line responsibility for the Bank's strategy and exposure to climate change sits primarily with Chief Customer Officer. The Customer Department is responsible for assessing customers' needs and product design in line with the Bank's credit risk and ESG strategy.

- **Risk function** – second line risk function within the bank is responsible for developing management information, monitoring physical and transitional risk exposures, and reporting to ERC.
- **Allocation of responsibilities** - SMF4 Chief Risk Officer is responsible for the identification and management of financial risks arising from climate change. This responsibility is documented within the Statement of Responsibilities.

The Bank's approach to managing financial risks arising from climate change will continue to evolve as the definition, management information available, and identification of assets potentially impacted is refined.

Monitoring and management of Risks

The Bank's risk appetite for financial risk arising from climate change in the Residential Finance Portfolio (RFP) is documented in the Risk Management Framework and board approved associated Risk Appetite Statement (RAS) metrics. The Management Credit and Investment Committee (MCIC) monitors and oversees the climate risk exposure related to the Residential Finance portfolio, the 2nd line Credit Risk team conduct regular monitoring of the portfolio, reporting on any changes in the risk exposure as a result of concentration risks or changes in the physical and transitional risks that the portfolio is exposed to.

Through the Internal Capital Adequacy Assessment Processes (ICAAP) and associated scenarios proposed, the Bank considers all material exposures relating to financial risks from climate change and an assessment of how any material exposures have been determined. Mitigation of these financial risks forms part of the scenario testing to ensure that the bank has in place strategies for monitoring and managing the impact of the risks.

Physical and Transition Risk

Climate risk can have both a direct and indirect impact on homeowners, physical risk such as floods and coastal erosion cause significant losses, as well as transition risks that can impact on the local economy reducing the ability to repay finance. The impact of climate risk can also see a reduction in the value of properties and therefore increases the credit risk through a greater probability of default and loss adversely affecting both the bank and the customer. Due to the length of time that climate related financial risks can occur over, there is a need to view the risks over the long term as opposed to short term business impacts and mitigations.

Bank of England analysis indicates the energy efficiency of a property is a predictor of credit risk exposure. Mortgages in energy efficient properties (with EPC rating A-C) are less likely (c18%) to be in arrears than mortgages in energy inefficient properties.

In support of its ESG commitments and recognising the financial risk posed the Bank's product design considers the impact of climate change on the current and future product and criteria, The Bank offers lower rate green products to the most energy efficient properties, monitoring the EPC ratings of the residential finance portfolio and reporting to ERC.

7 Record Keeping

The ESG Lead is responsible for capturing and reporting on the Bank's ESG commitments. Alongside various teams and departments within the bank and external partners.

Records keeping is shared within the Annual Report, Sustainability Report, UN PRB report or any other report as deemed necessary or required by the regulators or stakeholders.

8 Policy Governance

The Bank complies with the ESG policy and actions are achieved following Bank's ESG strategy and commitments, which are publicly disclosed and published. Any breach of this Policy is treated as an incident and may be dealt with in accordance with the Bank's Disciplinary Policy and Procedures.

Responsibilities are further described below:

Role	Responsibilities
Chief Customer Officer	Considers the policy objectives while making business decisions.
Chief Risk Officer	Consider the policy objectives when assessing the Risk Management Framework and is the SMF accountable for financial risk posed by climate change.
ESG Lead	Reviewing the policy annually to ensure ESG is implemented across the bank in line with the requirements and commitments.
Internal Audit	Assess compliance alongside the policy when conducting reviews/audits.
Colleagues	While there are specific targets and commitments in ESG, all colleagues are responsible in driving ESG through their roles.

9 Definitions

ESG Policy - Environment Social Governance Policy

HSE Policy – Health, Safety and Environment Policy

10 Appendix

Below are listed the related documents to this policy:

- Health Safety and Environment Policy
- Risk Management Framework
- Credit Risk Policy
- Sustainable Procurement Policy
- Colleague Volunteering Policy
- Anti Bribery & Corruption Policy
- Financial Crime Policy
- Modern Day Slavery Policy