

# Environmental, Social and Ethical Risk Policy Summary Defence Sector



The NatWest Group plc and its subsidiaries (the NatWest Group) Environmental, Social and Ethical (ESE) risk management framework is one of several risk management systems we operate, comprising policies and processes to give us better insight into our customers' activities, help address issues of concern, minimise risks to the bank and manage stakeholder expectations. It gives clear guidance to staff on the procedures they must follow when dealing with customers and transactions in these sectors.

Our policies reflect adherence to national and international laws and regulations, wherever they apply. We have also incorporated a number of voluntary standards such as the Equator Principles and the UN Global Compact.

## Scope

The Defence sector policy covers NatWest Group support for companies that are involved in the production and trade of defence equipment. This comprises retail, commercial industry and contractors engaged in research, development, production, and servicing of military equipment and facilities.

## Context

As a purpose-led bank we champion potential, helping people, families and businesses to thrive.

We recognise the right of nations to protect their people and property. The UK defence sector supports that objective, whilst also providing employment opportunities for many local communities. At NatWest Group, we are proud of our long association of support for the UK armed forces. We also recognise the potential for weapons to be used to cause harm and suffering and that some weapon types can cause mass, indiscriminate and long-lasting damage.

NatWest Group acts in accordance with the strict regulation and licensing arrangements set by the UK government, and by relevant international standards, when engaging with companies involved in the design, manufacture, support and trade of defence equipment. Our support for Nuclear Weapons manufacturers extends to customers incorporated in NATO countries which are officially involved in and accredited to the national nuclear weapons programmes of only UK, US or France.

Defence Transactions must be supported by a government licence and although essential, this alone is not sufficient. When making case by case decisions whether to facilitate defence transactions, we consider the product type, jurisdiction and end use of the product, and do not support transactions going to jurisdictions that have a track record of human rights abuse, or where the country's adherence to international standards in the conduct of military action undermines confidence in the end use of the weapon.

We do not support customers involved in the manufacture, sale, trade, servicing or stockpiling of Highly Controversial Weapons, and bespoke components of such weapons, banned under international agreements ratified by the UK. This includes cluster munitions, anti-personnel landmines, biological and toxin weapons, chemical weapons and Blinding Laser Weapons.

## Our ESE policy requirements

We recognise that the activities of our customers can have environmental, social and ethical (ESE) impacts – including polluting activities and the potential for human rights infringements. To help us assess and manage these risks, we have an ESE Risk Framework comprising of policies and processes to give us better insight into our customers' activities and address issues of concern to minimise risks to the bank and manage stakeholder expectations.

ESE sector Risk Acceptance Criteria define the level of ESE risk the bank is prepared to accept, and our expectations of companies to manage ESE risks. This includes having relevant policies and procedures which demonstrate a good understanding of ESE issues and the capacity to manage these risks through good governance and controls. It also includes a positive track record of managing ESE risks and a commitment to transparency. Our policies reflect applicable national and international laws and take into account good international practice, for example managing climate change. They also incorporate a number of voluntary standards such as the Equator Principles and the UN Global Compact. We also expect our customers to adhere to local and international environmental, social and human rights standards. The policies apply to all legal entities within the Group.

Our ESE policies are reviewed and updated regularly to ensure they reflect the evolving risk landscape. They classify activities into three categories; Prohibited, Restricted and Normal risk. We do not support customer activity or individual transactions which are prohibited. We complete an ESE Risk Assessments for customers engaged in restricted activities, when the relationship is established and then every one or two years thereafter. The final risk assessment is presented to a specialist risk committee or accountable executive for approval. Customers with activities limited to 'normal' (lower risk) ESE activities, are assessed every five years, unless an event triggers a review in the interim period.

This table highlights key activities that fall within the Defence sector policy:

## Prohibited

- Financing of companies involved in the manufacture, sale, trade, service or stockpiling of Highly Controversial Weapons banned under International Agreements ratified by the United Kingdom (Cluster Munitions, Anti-Personnel Landmines, Biological and Toxin Weapons, Chemical Weapons and Blinding Laser Weapons) and the manufacture or sale of Bespoke Components of such weapons.
- Financing of companies involved in the manufacture, sale, trade, servicing or stockpiling of Nuclear Weapons in jurisdictions outside NATO countries and that are not officially involved in and accredited to the national nuclear weapons programmes of UK, US or France.
- Financing of companies involved in the manufacture, sale or trade of defence goods where there is no (defence related) licence in place and such is required.
- Use of child labour, forced labour, modern slavery or human trafficking.

## Restricted

- Financing of companies involved in the manufacture, sale, trade, servicing or stockpiling of Nuclear Weapons and the manufacture or sale of Bespoke Components in NATO countries and are officially involved in and accredited to the national nuclear weapons programmes of only UK, US or France.
- Companies involved in the manufacture, trade or sale of Semi or Fully-autonomous Armed Unmanned Aerial Vehicles and Depleted Uranium Weapons.
- Manufacture, sale and trade of all other Weaponry (e.g. bombs, missiles, rockets, guns, ammunition) and equipment designed to enable the transport, deployment, execution or performance of a weapon (e.g. aircraft carriers, weapon platforms) where weapons are manufactured or sold in high risk countries.
- Non-manufacturing companies (arms traders) involved in the sale or procurement of defence-related equipment
- Issues identified during the ESE risk assessment that give cause for ESE/reputational risk concern e.g. material or repeat non-compliance with environmental and social laws, a lack of adequate policies and procedures for managing ESE risks or major targeted non-governmental organisation campaigns against a company

## Normal

- None of the above apply and no material issues have been identified during the ESE risk assessment.