

Environmental, Social and Ethical Risk Policy Summary Oil & Gas Sector



The NatWest Group plc and its subsidiaries (the NatWest Group) Environmental, Social and Ethical (ESE) risk management framework is one of a number of 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 in relation to ESE risks when dealing with customers and transactions.

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

This policy covers NatWest Group support provided to companies involved in the exploration and production (upstream), transportation and storage (midstream) and refinement and processing (downstream) of Oil & Gas. This includes conventional sources of Oil & Gas as well as less conventional sources such as oil sands and shale gas.

Context

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

NatWest Group have an ambition to be the leading bank in the UK in helping to address the climate challenge. While the oil and gas sector continues to play a critical role in UK energy security and the transition to clean energy, NatWest Group recognises the significant climate, environmental and social risks associated with it. We are committed to managing these risks and uphold human rights.

From 1st January 2022, all relationships with oil and gas Majors are rated high ESE risk to allow for annual review and monitoring via Reputational Risk Committee. We will only continue to support upstream oil and gas companies:

- where the majority of their assets* being financed are based in the UK (onshore or offshore UK Continental shelf); and
- where those companies report to us the overall emissions of the assets they operate by the end of 2023.

As part of our climate ambition announced in February 2020, we stated that we planned:

- to stop lending and underwriting to major oil and gas producers unless they had a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021.

Where customers were assessed as not having Paris aligned credible transition plans in place, we will stop lending and underwriting to these customers as soon as practicable, including stopping renewal, extension or refinancing of any existing commitments at 31 December 2021. In our continued discussions with these customers, we understand that they are investing in activities to support transition towards net zero. As a responsible business and in recognition of NatWest Group role's in financing the transition, we may provide lending and underwriting to these customers where such lending and underwriting is limited to activities that are aligned to our Climate and Sustainable Finance Inclusion (CSFI) criteria, where the proceeds of such financing are linked to the development of the assets and activities referenced in the CSFI criteria.

Assessment of whether a transaction meets the CSFI criteria will be carried out as part of the credit approval process.

Our purpose is to champion potential, helping people, families and businesses to thrive. This lies at the core of our activity as we strive to create long term, deeper relationships with our customers. At the heart of our purpose is a clear commitment to people – to value, support, empower them and ultimately enable them to thrive. Respect for human rights is linked to our purpose, reflected in Our values and we seek to embed it throughout our business. We strive to be an open and inclusive business that supports respect for human rights whilst also seeking to identify and mitigate any negative impacts that our activities may have on individuals or communities**.

Our Oil and Gas Risk Acceptance Criteria helps limit lending and underwriting activities that do not align to our purpose.

* >51%

** NatWest Group Human Rights Statement 2021

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 summarises our ESE policy for general corporate lending to the Oil & Gas sector:

Prohibited

- Use of child labour, forced labour, modern slavery or human trafficking (as defined by international standards, including the International Labour Organization and the UK Modern Slavery Act 2015)
- Major Oil and Gas producers, unless they have a credible transition plan aligned with the 2015 Paris Agreement in place.
- Upstream oil and gas companies where:
 - the majority (>51%) of their assets being financed are not based in the UK (onshore or offshore UK Continental shelf); or,
 - those companies do not report to us the overall emissions of the assets they operate by end of 2023
- New reserve based lending for operations in Arctic or Antarctic Waters and regions
- Companies involved in onshore exploration, extraction or expansion of oil & gas in the UK using hydraulic fracturing methods ('fracking')

- Companies involved in onshore or offshore exploration, extraction or expansion of oil & gas facilities outside the UK using hydraulic fracturing methods where the company does not have a licence to operate by the relevant authority or there are repeat compliance issues associated with operations
- Major oil & gas companies who are not committed to the Global Gas Flaring Reduction Partnership (GGFR) and the World Bank's "Zero Routine Flaring by 2030" initiative
- Companies undertaking the exploration, extraction or expansion of oil from Oil Sands^
- Companies undertaking the exploration, extraction or expansion of oil and/or gas using coal-bed Methane or Coal Liquefaction^

^Existing NatWest Group exposure to these activities will only be accepted if it has been assessed as part of the company's credible transition plan

- Projects involving oil exploration and production operations in Arctic or Antarctic Waters
- Project financing of exploration and extraction of oil and gas activity in the Arctic Refuge
- Projects involving the exploration and extraction of oil from oil sands
- Projects involving hydraulic fracturing ('fracking') for oil and gas
- Projects involving exploration for new oil and gas reserves

Restricted

- Companies classified as oil and gas Majors that have a credible transition plan aligned with the 2015 Paris Agreement in place.
- Companies with operations that adversely impact on the outstanding Universal Value of UNESCO World Heritage Sites.
- Companies that are responsible for the resettlement of large numbers of people relating to a single project (>5000 people).
- Companies using non-harmful child labour.
- Existing Reserve Based Lending or Borrowing Base Financing for Oil & Gas companies with oil exploration or production operations in Arctic or Antarctic Waters (Where such lending / financing attributes value to an arctic asset as security or for repayment of the financing).
- Highly controversial issues identified during the ESE Assessment e.g. serious environmental damage arising from a company's operations or projects.
- Companies operating in UNESCO Ramsar Sites, Man & Biosphere Sites or High Conservation Value Forests.
- Companies where there is evidence of direct involvement in the involuntary displacement/relocation of Indigenous Peoples without Free Prior & Informed Consent.
- Companies with oil & gas extraction operations in areas of war or armed conflict or with significant oil & gas extraction operations in countries defined as "High Risk" under the NatWest Group Country Reputational Risk Framework.
- Companies outside the UK undertaking the exploration of Shale Gas where environmental and social risks are appropriately managed including for: water use and wastewater management, air emissions, solid waste, spill response/clean-up operations, site restoration and community/stakeholder management AND where the company has a licence to operate by the relevant authority AND there are no repeat compliance issues associated with operations.
- Companies conducting oil exploration and production operations in Arctic and Antarctic Regions without reliable evidence of appropriate environmental and health & safety (EHS) policies and procedures for operating in these regions.
- Issues identified during the ESE Assessment that give cause for concern e.g. material or repeat non-compliance of environmental and social laws, a lack of adequate policies and procedures for managing ESE risks or major targeted NGO campaigns against a company (or projects the company is involved with).

Normal

- None of the above apply and no material issues have been identified during the ESE screening.
- Companies are expected to be in compliance with international and/or local laws relating to the ESE spheres and have policies or systems in place to manage ESE risks, including where relevant: environmental and/or social impacts; health and safety; biodiversity; greenhouse gas emissions, bribery and corruption; labour standards; human rights. Particular consideration must be given to companies that operate in weak governance countries where regulatory frameworks for environmental and social risks are less robust.
- Companies are encouraged to move towards best practice management of environmental and social risks in the sector by referring to internationally recognised practices and standards which include: The International Petroleum Industry Environmental Conservation Association, Extractive Industries Transparency Initiative, Global Gas Flaring and Venting Reduction Voluntary Standard, The International Association of Oil & Gas Producers, Voluntary Principles on Security and Human Rights, International Maritime Association.