

Environmental, Social and Ethical Risk Policy Summary

Power 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 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 and projects related to the Power sector.

This covers:

- Thermal – coal, gas and oil-fired power plants.
- Nuclear.
- Renewables – wind (on and offshore), solar, tidal, geothermal, biomass, hydropower.

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

- To stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021; and,
- A full phase-out from thermal and lignite coal by 2030.

Where customers were assessed as not having Paris aligned credible transition plans in place, we will stop lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments at 31 December 2021. We will fully exit these customer relationships as soon as is practicable.

From 1 January 2022, all coal relationships are rated high ESE risk to allow for annual review and monitoring via Reputational Risk Committee.

From November 2021, we will have no new exposure to thermal and lignite coal (coal). We have prohibited:

- New customer relationships with corporates that operate unabated coal power plants.
- Existing customers who are increasing coal-fired power capacity including acquisition or construction of coal power assets or increasing the output capability of existing plants.

- All project financing (including refinancing) related to coal power activity including new coal power assets and projects that expand the life of existing unabated coal power plants and coal infrastructure.

We intend to:

- By 1 October 2024: phase out of coal for UK and non-UK customers who have UK coal fired power generation and coal infrastructure.
- By 1 January 2030: full phase out of coal.

As a result, we will stop lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments as at dates mentioned above, as they mature. We will fully exit these customer relationships as soon as is practicable.

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 Power Generation Risk Acceptance Criteria helps the Group to limit lending and underwriting activities that do not align to our purpose

*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 lending and underwriting to the power sector:

Prohibited

- New customer relationships with corporates that operate unabated coal power plants.
- Existing customers who are increasing coal-fired power capacity including acquisition or construction of coal power assets or increasing the output capability of existing plants.
- All project financing (including refinancing) related to coal power activity including new coal power assets and projects that expand the life of existing unabated coal power plants and coal infrastructure.
- The activities below are prohibited in, or to, countries which are (i) subject to International Sanctions; and/or (ii) that have failed to sign the Nuclear Non-Proliferation Treaty (NPT) - Israel, Pakistan, South Sudan. (India is excluded from this category as though it has not signed the NPT it has bilateral agreements over its civil nuclear programmes and sits in the High risk category):
 1. Operators of Nuclear Power Plants (NPPs) or Uranium Enrichment Facilities;
 2. Companies involved as lead contractors in the construction or design of such plants / facilities or lead contractors involved with the transport, storage and disposal of nuclear waste in countries;
 3. Companies supplying uranium.
- Companies using harmful child labour
- Companies using Forced Labour, Modern Slavery or Human Trafficking
- Project transactions associated with construction of NPPs or Uranium Enrichment Facilities in countries (i) Subject to International Sanctions; and/or (ii) That have failed to sign the Nuclear Non-Proliferation Treaty (NPT) and adopt International Atomic Energy Agency (IAEA) safeguard agreements on the proliferation of nuclear weapons (Israel, Pakistan, South Sudan); and/or (iii) that represent a higher geo-political risk and have perceived weaker regulatory frameworks (to be determined through discussions with Country Risk should a lending opportunity be identified).
- Trade Transactions involving components destined for NPPs or Uranium Enrichment Facilities in countries that are subject to International Sanctions or restrictions relating to nuclear goods (India, Israel, Pakistan, South Sudan).

Restricted

- Companies with any coal activities and 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 operating in International Union for the Conservation of Nature (IUCN) I - IV Protected 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
- Companies that operate NPPs and Uranium Enrichment Facilities in countries (i) defined as "High Risk" under the NatWest Group Country Reputational Risk Framework (NWG Country Reputational Risk Score of 4) and/or (ii) that have not signed the NPT but have engaged with the international community through bilateral agreements over their civil nuclear programmes (eg India).
- Highly controversial issues identified during the ESE Assessment e.g. serious environmental damage arising from company operations.
- Companies operating in Ramsar Sites, UNESCO Man & Biosphere Sites, and/or High Conservation Value Areas

- Companies where there is evidence of direct involvement in the involuntary displacement or relocation of indigenous peoples without Free Prior & Informed Consent
- Companies operating one or more single biomass plant with a power capacity above 100 MW that do not possess a policy or plan regarding the sustainable supply of feedstock.
- Operators of hydropower plants in non-OECD countries, that do not have in place policies and risk management procedures to manage environmental and social risks (including but not limited to dam safety, environmental impact, labour & working conditions and resettlement. Ideally companies will have adopted or be working towards the adoption of the International Hydropower Associations' Sustainability Protocol. (Companies only operating with hydropower operations under 100 MW are excluded).
- Companies operating NPPs in International Atomic Energy Agency (IAEA) member countries which have not ratified the following international nuclear treaties (links to latest status of ratification):
 - Vienna Convention on Civil Liability for Nuclear Damage OR the Paris Convention on Third Party Nuclear Liability
 - Convention on Nuclear Safety
 - Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management
- Customers involved as lead contractors in the construction of NPPs or Uranium Enriched Facilities or companies designing commercial reactors or companies involved with the transport, storage and disposal of nuclear waste in countries which are (i) defined as "High Risk" under the NWG Country Reputational Risk Framework (NWG Country Reputational Risk Score of 4) and/or (ii) that have not signed the NPT but have engaged with the international community through bilateral agreements over their civil nuclear programmes (eg India).
- 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 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 countries where regulatory frameworks for environmental and social risks are less robust.

Normal

- None of 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 countries where regulatory frameworks for environmental and social risks are less robust.