

Forestry, Fisheries and Agribusiness Sectors

The Royal Bank of Scotland Group plc and its subsidiaries (the RBS 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 the RBS Group lending and services provided to companies and projects related to the forestry, fisheries and agriculture sectors. This includes activities such as timber, palm oil or soy production and plantations, significant cattle ranching in specified countries, management of peat lands or damaging fishing practices.

Context

Forestry, fisheries and agribusiness industries provide many useful products for the global population, are vital sources of food, fibre and animal feed, and contribute towards transportation biofuels and emerging bio-products industries. But the growing demand for such products, compounded by global population growth, is resulting in significant environmental and social impacts. The expansion of 'soft commodities' markets and the growing use of intensive farming and fishing methods is placing significant strain on our natural environment through the clearance of forests, damage to fish populations and other impacts. These trends also have the potential to reduce the ability of forests, peat lands and other natural environments to play their role in absorbing CO₂ emissions, protect biodiversity and provide sources of sustainable livelihoods for local people.

The 'Soft Commodities Compact' - developed by the Banking Environment Initiative and the Consumer Goods Forum - is a key initiative created to address some of these issues. The RBS Group is a signatory of the Soft Commodities Compact, which aims to mobilise the banking industry to help transform soft commodity supply chains, thereby helping clients to achieve zero net deforestation by 2020.

Our ESE policy requirements

We expect and encourage our customers to demonstrate commitment and compliance to mitigating ESE risk through:

- Having in place and embedding policies and plans which demonstrate a good understanding of ESE issues
- Demonstrating the capacity to manage these risks through good governance and controls
- A positive track record of managing ESE risks
- A commitment to transparency.

Within our policy we set out **Prohibited**, **Restricted** and **Normal** activities. We do not support customers and/or transactions involved in prohibited activities.

Customers engaged in restricted activities undergo enhanced due diligence including review by a reputational risk forum or approver and evaluation every one or two years. Customers undertaking 'normal' (lower risk) activities are assessed for ESE on a five-yearly basis.

Project-specific lending

The following prohibitions apply when lending to a specific project:

- projects involving unsustainable vegetation clearance or peatland clearance/extraction.

Our definition is projects involving:

- Degradation of areas (often forests) necessary to protect High Conservation Value areas;
- The conversion of primary tropical forests; or land clearance by burning.
- The conversion of High Carbon Stock tropical forests.
- Clearance of peatlands, including peat extraction.

General corporate lending

This table summarises our ESE policy for general corporate lending to the Forestry, Fisheries and Agribusiness sectors:

Prohibited
<ul style="list-style-type: none"> • Manufacture of pesticides banned under the Stockholm Convention • Damaging fishing methods - use of explosives (dynamite) and/or poison (cyanide); use of driftnets in excess of 2.5km or use of driftnets intended for the capture of species listed in Annex VIII of EU Regulation 1239/98 such as tuna and swordfish • Direct involvement in shark-finning or trading in shark fin; commercial whaling; Illegal, Unreported or Unregulated (IUU) fishing activities or trade in IUU products • Harvesting or trade of species listed under the Convention of International Trade of Endangered Species (CITES) • Direct involvement in illegal logging or the purchase of illegally harvested timber or companies using illegal and/or uncontrolled use of fire for land clearance • Direct involvement in fur farming (e.g. foxes, seals, mink, cats and dogs) or Angora (wool and fur) production • Fur traders and fur retailers where fur is their primary product line • Illegal wildlife trade (e.g. ivory or rhino horn) • Use of harmful 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)
Restricted
<ul style="list-style-type: none"> • Tree felling or clearance within High Conservation Value Forests, UNESCO World Heritage Sites or International Union for the Conservation of Nature IUCN (I – IV) Protected Sites • Operations in Ramsar Convention Sites, UNESCO Man & Biosphere Sites, or Marine Protected Areas • Clear evidence of the direct displacement of indigenous peoples without free prior and informed consent or resettlement of large numbers of people relating to a single project • Inadequate commitment to manage ESE risks (e.g. environmental, health & safety, human rights); material violations of environmental and social laws or companies that have had recent significant environmental

and/or social incidents (major pollution events/accidents)

- Companies which do not meet recognised industry sustainability standards in the following specified sectors. Adherence to these recognised standards is required within specified timeframes and specified countries/regions for significant activities in:
 - Forestry / rubberwood – Certification by the Forest Stewardship Council or the Programme for the Endorsement of Forest Certification (PEFC)
 - Palm oil - Membership or certification to the Roundtable on Sustainable Palm Oil (RSPO)
 - Soy - Certification to the Roundtable for Responsible Soy (RTRS)
 - Cattle ranching - Membership of the Global Roundtable for Sustainable Beef (GRSB)
- Operation of cotton plantations in Uzbekistan
- Clearing of peat lands for commercial plantations [by draining and/or burning] unless a clear and stringent peat land management procedure is in place
- Deep Sea Bottom trawling (deeper than 600m below sea level)
- Import of hunting trophies to the UK

Normal

We assess customers' approach and policies towards environmental, social and ethical risks

- The customer demonstrates compliance with international and local laws and has policies in place to manage ESE risks
- There are no material issues identified during the assessment process and the customer can demonstrate a good track record for meeting health and safety and environmental standards
- Particular consideration is given to customers operating in countries with weak governance and poor regulatory frameworks to ensure the management of their environmental and social risks are robust.