

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 and Ireland in helping to address the climate challenge. We will have no new exposure to thermal and lignite coal (coal). We will plan a phase out of coal for UK and non UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024 and plan a full phase out of coal by 1 January 2030.

NatWest Group has committed to stop providing lending and underwriting services to companies with more than 15% of activities related to thermal and lignite coal, unless they have a Credible Transition Plan ("CTP") aligned with the 2015 Paris Agreement in place by the end of 2021.

We are continuing the process of assessing the CTPs of these in scope customers and expect to complete this by the end of 2021. These will include considering the impact of legislative requirements and policy developments alongside customer transition plans. From 1 January 2022, all coal relationships will be rated high ESE risk to allow for annual review and monitoring via Reputational Risk Committee.

We intend to engage with in scope customers during Q4 2021 to discuss outcomes of our assessments, as well as, how we can support their transition away from fossil fuels to low carbon technologies as appropriate. 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 (1).

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

(1) NW Human Rights Statement 2021

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 financial crime and 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 involving prohibited activities.

Customers engaged in restricted activities undergo enhanced due diligence including review by a reputational risk committee or an official approver, and evaluation every one or two years. Customers undertaking 'normal' (lower risk) activities are assessed for ESE every five years.

General corporate lending

This table summarises our ESE policy for lending and underwriting to the power sector:

Prohibited

- New customer relationships with corporates that operate unabated coal powered 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.
- Electricity Generation companies whereby more than 15% of their unabated power generated derives from thermal and/or lignite coal (1) (based on Terawatt Hours of power generated), except where an existing customer can provide a Credible Transition Plan (CTP) in line with the 2015 Paris Agreement by the end of 2021.
- Companies involved in the following activities in sanctioned countries and/or countries that have failed to sign the Nuclear Non-Proliferation Treaty:
 - Operators of nuclear power plants or uranium enrichment facilities;
 - 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;
 - Companies supplying uranium.
- Project finance for the construction of nuclear power plants or uranium enrichment facilities in countries (i) subject to international sanctions; and/or (ii) that have failed to sign the Nuclear Non-Proliferation Treaty and adopt IAEA safeguard agreements on the proliferation of nuclear weapons; and/or (iii) that represent a higher geo-political risk and have perceived weaker regulatory frameworks.
- 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).

(1) As of 14th February 2020

Restricted

- Companies with operations that adversely impact on the Outstanding Universal Value of UNESCO World Heritage Sites.
- Companies operating in IUCN I – IV Protected Sites, UNESCO Ramsar Sites, UNESCO Man & Biosphere Sites and High Conservation Value areas.
- Companies that are responsible for the resettlement of large numbers of people relating to a single project (>5000 people).
- Companies where there is evidence of direct involvement in the involuntary displacement or relocation of indigenous peoples without Free Prior & Informed Consent.
- Operators of nuclear power plants in International Atomic Energy Agency (IAEA) member countries which have not ratified the following international nuclear treaties:
 - 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.
- Companies involved in the following activities in countries which are (i) defined as high risk under the NatWest Group internal country reputational risk framework and/or (ii) that have not signed the Nuclear Non-Proliferation Treaty but have engaged with the international community through bilateral agreements over their civil nuclear programmes:
 - Operate nuclear power plants or uranium enrichment facilities.
 - Lead contractors in the construction of nuclear power plants or uranium enrichment facilities.
 - Companies designing commercial reactors.
 - Companies involved with the transport, storage and disposal of nuclear waste.
- Companies operating coal-fired power plants that are not able to demonstrate monitoring of greenhouse gas (GHG) emissions or compliance with applicable GHG regulations.
- Companies operating hydropower plants in non-OECD countries without adequate environmental and social risk management systems in place relating to issues including dam safety, environmental impact, labour Published Feb 2020 standards and resettlement.
- Companies operating one or more single biomass plant with a power capacity above 100MW that do not possess a policy or plan regarding the sustainable supply of feedstock.
- Issues identified 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.