

# Environmental, Social and Ethical

# Risk



NatWest  
Group

## Defence & Private Security

## Risk Acceptance Criteria



# Defence & Private Security Sector

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. ESE risk forms part of NatWest Group’s overall Reputational Risk Policy and requires enhanced due diligence to be performed for certain customer relationships, transactions, activities and projects. To manage these risks, we have developed Risk Acceptance Criteria for sectors which present heightened ESE risk and define the level of ESE risk the bank is prepared to accept.

The ESE Risk Framework supports our long-term, ongoing work for our appetites and practices to be informed and guided by the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

## Scope

The ESE Risk Framework applies to all legal entities within the Group for the onboarding of non-personal customers for the purposes of providing lending or loan underwriting services and applies to the management of ESE risk throughout these customers lifecycles.

## Context

We recognise that the defence and private security sector can present associated human rights risks. Our policies and procedures, including enhanced due diligence, are therefore designed to ensure compliance with our human rights obligations. We also recognise that during times of conflict, heightened human rights risk can arise and additional engagement and due diligence may be required to ensure continued lawful use of weapons.

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.

Where material concerns relating to human rights violations <sup>[1]</sup> are identified, including with respect to the salient human rights issues <sup>[2]</sup> identified by NatWest Group, we will engage with the customer to understand the actions they have taken to cease and remediate and prevent future violations.

This document summarises our ESE Risk Acceptance Criteria for the Defence & Private Security sector.

## Prohibited

### Generic

- Evidence <sup>[3]</sup> of human rights violations <sup>[1]</sup> where the customer is unable to demonstrate that it has taken any action to cease, remediate, prevent and/or mitigate, as appropriate, the relevant violation.

### Defence

- Financing of companies involved in the manufacture, sale, trade, service or stockpiling 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 the 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.

### Private Security

- Armed PSCs operating in high-risk countries that have not signed up to the International Code of Conduct (ICoC) or other relevant industry body within the next 12 months.
- Armed PSCs operating in low-risk countries that have not adopted ICoC or equivalent standards, policies or procedures.
- PSC's providing armed personnel to government Armed Forces or local militia (mercenaries).

## Restricted

### Generic

- Evidence <sup>[3]</sup> of human rights violations <sup>[1]</sup> where the customer is able to demonstrate that it has taken action to cease, remediate, prevent and/or mitigate, as appropriate, the relevant violation within a timeframe which is acceptable to the bank.

### Defence

- 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.

### Private Security

- Armed PSC's (ICoC members or members of other relevant bodies with appropriate controls/policies) operating in high-risk countries.
- PSC's that contract with and utilise 3rd party armed personnel.
- PSC's providing training in the use of weapons or training personnel in combat/hostile situations where weapons would be used.
- Highly controversial issues identified during the ESE risk assessment e.g., fines, pending prosecutions, accused breaches of laws especially with respect to financial crime (Bribery & Corruption, Money Laundering, Terrorist Financing, Sanctions, Tax Evasion); major NGO campaigns/negative publicity.

## Normal

### Generic

- No evidence <sup>[3]</sup> of human rights violations <sup>[1]</sup>.
- None of the above apply and no material issues have been identified during the ESE risk assessment.

### Defence

- UK-based firearms and ammunition retail with no sales to high-risk countries where current firearms licences (e.g. a Registered Firearms Dealer licence) have been evidenced.

## Glossary

Item	Definition
1.Human rights violation	A violation of any right which is inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion or any other status.
2.Salient human rights issues	The United Nations Guiding Principles Reporting Framework defines salient human rights issues as those rights that are at risk of the most severe negative impact through a company's activities or business relationships. NatWest Group's 'Salient Human Rights Issues' can be found at <a href="https://www.natwestgroup.com/sustainability/governance-and-responsible-business/human-rights-and-modern-slavery.html">https://www.natwestgroup.com/sustainability/governance-and-responsible-business/human-rights-and-modern-slavery.html</a>
3. Evidence	A finding of a human rights violation by a government (including a government agency), supervisory authority, national or international court or multinational development agency.