

Environmental, Social and Ethical Risk



NatWest
Group

Oil & Gas

Risk Acceptance Criteria



Oil and Gas 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.

Scope

The ESE Risk Framework applies to all legal entities within the Group for the onboarding of non-personal customers (including, but not limited to, for the purposes of providing lending or loan underwriting services).

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. To support our climate ambition, we are reducing our current levels of lending for the upstream oil and gas extraction sector.

From February 2023, we will not provide reserve-based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers, and, after, the 31st December 2025, we will not renew, refinance or extend existing reserve based lending specifically for the purpose for financing oil and gas exploration, extraction and production.

We also announced in February 2022 that we will only 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.

We have also stopped lending and underwriting to oil and gas majors unless they had a credible transition plan aligned to the 2015 Paris agreement in place by the end of 2021. All relationships with oil and gas majors are rated high ESE risk to allow for annual review and monitoring via Reputational Risk Committee.

* >51%

This document summarises our ESE Risk Acceptance Criteria for the Oil and 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).
- 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).

- Companies involved in onshore exploration, extraction or expansion of oil & gas in the UK using hydraulic fracturing methods ('fracking').
- Reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers.
- After, the 31st December 2025 we will not renew, refinance or extend existing reserve-based lending specifically for the purpose of financing oil and gas exploration, extraction and production.
- Reserve based lending and borrowing base financing to upstream Oil and Gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic Waters (see glossary below).
- Oil and gas majors (see glossary below), unless they have a credible transition plan aligned with the 2015 Paris Agreement in place.
- Oil and gas majors who do not report to us the overall emissions of the assets they operate by end of 2023.
- Companies involved in onshore or offshore exploration, extraction or expansion of oil and 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 of 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.
- Projects involving the exploration or production of oil and gas in ultra deep-water.

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.
- 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.

Glossary

Arctic or Antarctic waters	<p>(i) Waters defined as those being within the 10°C July Isotherm https://nsidc.org/sites/nsidc.org/files/images/arctic_map.gif and</p> <p>(ii) Land beyond the Arctic Tree line including the Arctic National Wildlife Refuge. The "Antarctic Region" includes the Antarctic Continent and waters with the 60th parallel. Note: The Protocol on Environmental Protection to the Antarctic Treaty currently prohibits commercial mineral extraction on the Antarctic continent and there is no current oil exploration or production in Antarctic Waters.</p>
Oil and Gas major	Large corporate customers with gross lending exposure of £2 billion at December 2020 who were identified as requiring a Paris aligned Credible Transition Plan by the end of 2021.