

# NatWest Markets ESG Product Framework

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**NatWest**  
Markets

# Introduction

At NatWest Markets<sup>1</sup>, Environmental, Social and Governance (ESG) considerations are central in delivering our sustainability and business objectives. As part of The Royal Bank of Scotland Group plc (the Group) – our client focus is at the heart of what we do. Practising our core values, which include doing the right thing and thinking long term, requires the Group and its subsidiaries to be run as sustainable businesses, embedding sustainability across the entire organisation and serving today's clients in a way that helps future generations.

At NatWest Markets we provide financing and risk management services to the Group's corporate and institutional clients and have developed this ESG Product Framework (the Framework) to facilitate the raising of funding to support investment in assets with a high ESG rating (ESG Assets, as defined in section 2). This investment in ESG Assets will facilitate a portfolio of financial institution and agency bonds with a high ESG rating as part of our overall treasury portfolio, with a particular focus on development banks.

Directing additional liquidity to issuers with high ESG ratings contributes to the work already undertaken by NatWest Markets and the Group to further our positive impact within the sustainable finance sector.

## Sustainable lending and financing

We recognise that the activities of our clients can have environmental, social and ethical impacts and we seek to understand and manage these risks through our risk management framework. We conduct due diligence on relevant clients and transactions and consider their impacts as well as expecting our clients to adhere to environmental, social and human rights standards.

At the RBS AGM in May 2018, new energy lending policies were announced meaning we will not provide project-specific finance to high carbon intensive projects including:

- new coal fired power stations
- oil sands projects
- Arctic oil projects.

This was in addition to existing policies restricting financing to:

- Mining companies generating more than 40% of their revenues from thermal coal (a reduction from 65%)
- Power companies generating more than 40% of their electricity from coal (a reduction from 65%)

In its 2018 annual report the Group made the commitment to provide £10 billion of funding to the sustainable energy sector by 2020. We want to continue to empower our clients and colleagues by providing finance solutions and energy intelligence to accelerate the transition to a greener economy.

In 2018 the Group was recognised by InfraDeals as the leading lender to the UK renewables sector over the previous ten years, by number of transactions. This reflected a focus on sustainable energy financing - from 2015 to 2017 the Group provided £3.5 billion of sustainable energy financing in the UK, surpassing a goal of £3 billion. Approximately 40% of this went into solar energy and 25% to wind (in the past 2 years the Group has financed 6 offshore windfarms).

NatWest Markets offers financing and risk solutions to its corporate and financial institution client base. We have been active for many years in the sustainable finance sector, supporting clients by arranging and distributing bonds both publicly and privately. In 2018 NatWest Markets helped clients raise approximately £4 billion to fund environmentally and socially beneficial projects.

Examples of ESG-labelled debt transactions NatWest Markets has led since January 2018 include:

- Bonds: IFC, Unibail-Rodamco, SSE, Yorkshire Water, Société du Grand Paris
- Private placements: Anglian Water, TenneT, Thames Water
- Hybrid: Engie, EDP

Note: (1) NatWest Markets means both NatWest Markets Plc and NatWest Markets N.V.

## Commitments

The Group seeks to implement leading ESG policies to ensure we're fully implementing the COP21 Paris Climate Agreement targets and is one of the first companies worldwide to sign up to Climate Group's initiatives around electric vehicles, renewable electricity and energy productivity.

Group sustainability targets include:

- Renewable Energy 100 ("RE100"): 100% renewable energy for all electricity by 2025
- Carbon footprint: carbon emission reduction of 45% from 2014 baseline (*Target already hit and is currently 49% from base line*)
- Paper usage: 60% paper reduction (*Currently 29% as of Q1 2019*)
- Electric Vehicle 100 ("EV100"): 300 vehicles to be switched to electric and committed 600 charging points by 2030
- Zero waste to landfill by September 2019
- Energy productivity 100 ("EP100"): Improve energy productivity by 40% by 2025 from 2015 baseline

## Responsible employer

We're committed to working in a sustainable manner with employees and the communities we serve. The Group contributed to the [Thun discussion paper](#) on the implications for banks of the UN Guiding Principles and is committed to implementing these principles. We were an early adopter of the Living Wage and are a fully accredited Living Wage Employer.

We pride ourselves on fostering a diverse and inclusive workforce and we're a Stonewall Global Diversity champion. The Group was named Employer of the Year at the Women in Finance 2018 Awards and has been a Times Top 50 Employer for Women since the inception of the list in 2006.

## Community involvement

Within the communities that the Group operates we're committed supporters of financial capability and enterprise across the UK and Ireland through a range of activities and initiatives. MoneySense, the flagship financial education programme for 5-18 years olds, has helped over 6 million young people learn about money over the last 24 years. Entrepreneurs Accelerator Hubs have supported over 5,000 new businesses through our UK network and the Group has set up a team of Business Growth Enablers to use their networks of experts across different industries to provide training, mentoring and support to small businesses. The Group has additionally supported over 3,830 people through our enterprise programmes, Entrepreneurial Spark, Prince's Trust and the Skills and Opportunities Fund.

## Industry initiatives

The Group is actively involved with a range of industry bodies and initiatives that support the transition to a low carbon economy as well as the implementation of UN Sustainable Development Goals. These include:

- Equator Principles Association Steering Committee
- United Nations Environment Programme ("UNEP") Financial Initiative
- Financial Stability Board's Taskforce on Climate-related Financial Disclosures
- Prudential Regulation Authority Climate Financial Risk Forum
- International Capital Market Association ("ICMA") Sustainability Bond Guidelines
- Loan Market Association ("LMA") Green Loan Principles and Sustainability-Linked Loan Principles
- AFME working group focusing on Green Securitisation
- GFMA Sustainable Finance Steering Committee
- UK Sustainable Investment and Finance Association ("UKSIF")

## ESG accreditation

RBS engages a broad range of ESG rating agencies on our sustainability strategy and policies. Over recent years RBS has either retained or improved scores amongst the major ESG rating providers, reflecting our improved performance in this area. RBS also consistently ranks above the industry average.

	2016	2017	2018
<b>CDP (Climate Change)</b>			
RBS	A-	A-	A-
Industry average	C	C	B-
<b>DJSI (Dow Jones Sustainability Index)*</b>			
RBS	84	76**	81
Industry average	61	58	54
<b>FTSE4Good</b>			
RBS	Included	Included	Included
<b>ISS-oekom</b>			
RBS	C-	C-	C-
<b>MSCI</b>			
RBS	BB	BB	BBB
<b>Sustainalytics</b>			
RBS	59	56	67
Relative position (Banks)		184 / 345	83 / 343

Note: (\*) RBS is the only UK bank to be included in the Dow Jones Sustainability World and Europe Indices, and one of only 10 in Europe and 27 globally. (\*\*) The DJSI scores for 2017 were revised from 80 to 76 using 2018 methodology.

# 1 ESG Product Framework

This Framework seeks to enable the raising of funding to support investment in assets with a high ESG rating (ESG Assets, as defined in section 2).

The ESG Assets represent liabilities of issuers who are assessed by ISS-oekom, an independent third party expert, to have met a certain standard in ESG performance and reporting.

The structure of the Framework has been derived from ICMA Sustainability Bond Guidelines, which encompass both the ICMA's Green Bond Principles and ICMA's Social Bond Principles. This helps provide a level of robustness and transparency, in line with market expectation.

In making investment decisions this Framework scrutinises an organisation's holistic application of ESG standards across their operations rather than focusing on earmarked projects with green<sup>2</sup> and/or social benefits<sup>3</sup>. The Use of Proceeds sections of the respective ICMA guidelines are not directly applicable and the Use of Proceeds section in this document has been tailored to reflect the nature of the investments being made. Through this Framework we intend to support entities whose entire operations are run to the highest ESG standards for their industry. This is assessed through a broad range of environmental, social and governance principles, rather than the nature of a specific project or initiative.

The Framework is constructed as follows:

2. Use of Proceeds
3. Investment Evaluation and Selection process
4. Management of Proceeds
5. Reporting
6. External Review

Through the establishment of this Framework we aim to:

- promote best in class ESG policies and outcomes by facilitating debt market access and liquidity for high-ESG rated organisations
- support a high ESG portfolio of financial institution and agency bonds as part of our overall treasury portfolio, with a particular focus on development banks
- offer NatWest Markets clients the ability to invest in a broad range of ESG-linked liquidity and funding products

Initially this Framework will apply to short term debt instruments. Over time the intention is for this Framework to apply across a range of prospective liquidity and funding products for NatWest Markets.

Note: (2) climate change mitigation; climate change adaptation; natural resource conservation; biodiversity conservation; and pollution prevention and control (source 2018 edition of ICMA Green Bond Principles). (3) providing and/or promoting: affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy); access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services); affordable housing; employment generation including through the potential effect of SME financing and microfinance; food security; and socioeconomic advancement and empowerment (source 2018 edition of ICMA Social Bond Principles).

## 2 Use of proceeds

An amount equivalent to the proceeds raised under this Framework will be allocated to investments in ESG Assets.

**“ESG Assets” are financial institution and agency bonds issued by borrowers marked as “ESG Prime” by ISS-oekom, where the Exclusion does not apply.**

Exclusion: the Bond or Issuer does not meet the RBS environmental, social and ethical risk management standards or energy lending policies (as described in the Introduction).

Through applying one clear, credible and long-standing ESG rating metric NatWest Markets intends to be highly transparent in the formation of its ESG Asset portfolio.

ISS-oekom provides corporate and country ESG research and ratings that enables its clients to identify material social and environmental risks and opportunities, including through advisory services. The ESG Prime score is awarded by ISS-oekom to issuers that “meet specific minimum requirements in corporate ratings and achieve the best ESG scores among their sector peers”<sup>4</sup>. The metric has been in existence since 2005 and takes into account up to 100 different rating factors, the majority of which are sector-specific. Currently 17% of ISS-oekom’s rating universe is rated ESG Prime – including organisations such as the European Investment Bank, KfW, African Development Bank and the European Bank for Reconstruction and Development (Source: ISS-oekom, May 2019).

This investment in ESG Assets will facilitate development of a portfolio of highly rated ESG bonds as part of our overall treasury portfolio. Alongside general liquidity management, the treasury portfolio is used to meet regulatory liquidity requirements that NatWest Markets is required to maintain. The treasury portfolio contains among other instruments securities issued by governments as well as deposits with central banks.

In making allocation decisions our objective is to build a portfolio of ESG Assets issued by qualifying financial institutions and agency issuers in either the primary or secondary markets, with a particular focus on development banks. While it’s the intention to hold such instruments to maturity, it may be necessary at any time to sell them for risk management, operational liquidity or regulatory reasons. If this occurs, the unallocated proceeds will be deployed in line with the criteria set out in the Management of Proceeds section.

## 3 Investment Evaluation and Selection process

### *Day to day management*

The NatWest Markets Treasury team manages day to day funding and liquidity needs. They’ll be responsible for the creation of the products, the allocation of proceeds through selection of new bonds for addition to the ESG Asset pool, and oversight of ESG ratings of the ongoing ESG Asset pool.

On receipt of proceeds the NatWest Markets Treasury team will identify a bond purchase to invest proceeds in. They’ll determine if the bond issuer carries an ESG Prime rating from ISS-oekom. We’ll only allocate proceeds to the purchase of a bond once this assessment has been made and the eligibility criteria is satisfied.

### *Oversight*

Oversight of the Framework is managed by the NatWest Markets Treasurer supported by senior members of the NatWest Markets business, senior members of the NatWest Markets Treasury team and Sustainable Finance representatives. The Treasurer may also call upon support from additional subject-matter experts as required. The Treasurer will be accountable to and report to the NatWest Markets Asset & Liability Committee in respect of these oversight responsibilities.

Note: (4) To the extent that ISS-oekom no longer issue ESG Prime ratings during the life of this Framework then NatWest Markets will use reasonable efforts to substitute with an equivalent independent external methodology.

The NatWest Markets Treasurer has oversight of:

- Application of the ESG Product Framework structure
- Treasury management of the programme through creation of products and selection of ESG Assets
- Reporting under the ESG Product Framework
- Alignment of the ESG Product Framework with NatWest Markets and the Group's overall sustainability objectives

We intend to review the Framework at least annually, and to update it as required to ensure it meets our strategy and our clients' needs as they evolve, as well as the developing industry and market standards for ESG funding and investing.

## 4 Management of proceeds

NatWest Markets tracks the use of proceeds through selection of ESG Assets using its internal treasury systems. These systems are updated with ISS-oekom ESG ratings, allowing for regular confirmation of the ESG Prime status of the ESG Asset issuers.

We will strive to swiftly invest an amount equivalent to new funding raised under the ESG Product Framework in new ESG Assets.

There may be circumstances where there are unallocated proceeds; for example, a suitable bond is not immediately available, a bond redeems or we're required to liquidate a holding. In such instances the unallocated amounts will be held in:

- Deposits with central banks, where the respective sovereign is marked as "ESG Prime" by ISS-oekom
- Government bonds from sovereigns marked as "ESG Prime" by ISS-oekom
- or, if NatWest Markets is unable to allocate proceeds to either of the above, cash or other short term assets

There may also be circumstances where an ESG Asset fails to meet the eligibility criteria following re-verification by ISS-oekom. In this case it may be replaced with an alternative ESG Asset, and any interim unallocated proceeds will be managed as set out above.

## 5 Reporting

NatWest Markets will provide an ESG Product report on an annual basis setting out:

1. Funding raised under the ESG Product Framework
  - Total outstanding
  - Split by product type
2. ESG Asset pool split by:
  - Sector/type of issuer
  - Geography of issuer
3. Confirmation from the NatWest Markets ESG Product Committee that the use of proceeds received conforms to this ESG Product Framework.
4. Names of issuers who have been included in or removed from the ESG Asset pool since the last report

The first report will be available within 12 months of the launch of this ESG Product Framework. The reports will be available on [www.natwestmarkets.com/sustainablefinance](http://www.natwestmarkets.com/sustainablefinance)

NatWest Markets is committed to being transparent with its clients and investors. Any specific questions relating to the Framework can be sent to our dedicated NatWest Markets mailbox: [ESGProductFramework@natwestmarkets.com](mailto:ESGProductFramework@natwestmarkets.com)

# 6 External review

NatWest Markets has appointed ISS-oekom to provide it with a Second Party Opinion. We have asked ISS-oekom to opine on:

- Robustness of the ESG Product Framework
- Adequacy of NatWest Markets processes to meet its commitment under the Framework
- Alignment of the ESG Product Framework with the Group's overall strategy
- Alignment of the Framework with the components of ICMA Green and Social Bond Principles
- The Group's overall ESG rating

This report will be available on [www.natwestmarkets.com/sustainablefinance](http://www.natwestmarkets.com/sustainablefinance)

It should be noted that the Second Party Opinion will be prepared by a team that's segregated and distinct from the ISS-oekom team that's responsible for generating issuer reports and assigning ESG Prime ratings.

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