

Defence Sector

The RBS 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 when dealing with customers and transactions in these sectors.

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

The Defence sector policy covers RBS support for defence and aerospace companies that are involved in the production and trade of defence equipment. This comprises commercial industry and contractors engaged in research, development, production, and service of military equipment and facilities.

Context

RBS acknowledges the prerogative of democratic nations to purchase arms for self-defence. RBS 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. The defence and aerospace industries pose environmental concerns associated with the production of the goods, and ethical risks associated with the supply and distribution of goods globally.

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.

This table highlights key activities that fall within the Defence policy:

| Prohibited |
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| <ul style="list-style-type: none">• Financing of companies involved in the manufacture, sale, trade, broking, service or stockpiling of 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, broking, 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 UK, US or France• Use of child labour, forced labour, modern slavery or human trafficking |
| Restricted |
| <ul style="list-style-type: none">• Financing of companies involved in the manufacture, sale, trade, broking, 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 there is no licence in place to produce, sell or trade such weapons or weapons are manufactured or sold in high risk countries• 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. |
| Normal |
| <ul style="list-style-type: none">• None of the above apply and no material issues have been identified during the ESE risk assessment. |