

# Defence Sector

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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 in relation to environmental, social and ethical 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.

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## Scope

This policy covers RBS support provided to defence and aerospace companies that are involved in the production and trade of defence equipment. This comprises government, commercial industry and contractors engaged in research, development, production, and service of military material, 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 social or 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 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 annual evaluation. Customers undertaking normal activities are assessed on a three-yearly basis.

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

<b>Prohibited</b>
<ul style="list-style-type: none"><li>• Support to 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</li><li>• Use of harmful 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)</li></ul>
<b>Restricted</b>
<ul style="list-style-type: none"><li>• Financing of companies involved in the manufacture, sale, trade, broking, service or stockpiling of Depleted Uranium Weapons or Nuclear Weapons or the Bespoke Components of such weapons</li><li>• Trade of 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)</li><li>• Inadequate commitment to manage ESE risks (e.g. environmental, health &amp; safety, human rights); material violations of environmental and social laws or companies that have had recent significant environmental and/or social incidents (major pollution events / accidents)</li></ul>
<b>Normal</b> We assess all customers' approach to: environmental impacts, health and safety, biodiversity, labour standards and human rights.
<ul style="list-style-type: none"><li>• The customer demonstrates compliance with international and local laws and has policies in place to manage ESE risks</li><li>• There are no material issues identified during the assessment process and the customer can demonstrate a good track record for meeting health and safety and environmental standards</li><li>• Particular consideration is given to customers operating in countries with weak governance and poor regulatory frameworks to ensure the management of their environmental and social risks are robust.</li></ul>