

ESG Product Framework



ESG Product Report

July 2020

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Building a purpose-led bank

We are part of NatWest Group, a financial services company, providing a wide range of products and services to personal, business, commercial, corporate and institutional customers.

Our purpose is to champion potential, helping people, families and businesses to thrive.

This will create longer-term, deeper relationships with our customers – when our customers succeed, our communities succeed, our economy thrives – and we succeed as a result.

We are putting purpose at the core of everything we do – doing so will create a sustainable and resilient long-term future. We won't get everything right straight away – this is the start of a longer journey and we're committed to moving the whole organisation forward in this way.

We have identified three areas of focus where we can make a substantial impact in addressing challenges that threaten to hold people, families and businesses back:

- Enterprise, and the barriers that too many face to starting a business;
- Learning, and what we can do to improve financial capability and confidence for our customers, as well as establishing a dynamic learning culture for our employees; and
- Climate, and the role we can play in accelerating the transition to a low carbon economy.

We will be a safe, simple and smart bank with purpose at its heart. We will create lasting value when we champion the potential of those we serve. That is our purpose and our strategy.

1. Introduction

At NatWest Markets (NWM)¹, Environmental, Social and Governance (ESG) considerations are central in delivering our sustainability and business objectives and in July 2019 NatWest Markets developed the NatWest Markets ESG Product Framework (the Framework) to facilitate the raising of funding to support investment in assets of issuers with high ESG ratings, contributing to the work already undertaken by NatWest Markets and NatWest Group (the Group) to further our positive impact within the sustainable finance sector.

As per our commitments under the Framework, we are pleased to share our first ESG Product report. This report details how we used the Framework during its first year, covering the period from and including 1 July 2019 to and including 30 June 2020 (the Reporting Period).

2. ESG Product Framework

Through the Framework NWM aims 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

Through the Framework we intend to support organisations whose entire operations are run to the highest ESG standards for their industry – scrutinising an organisation’s holistic application of ESG standards across their operations rather than focusing on earmarked projects with green² and/or social benefits³. This is assessed through a broad range of environmental, social and governance principles, rather than the nature of a specific project or initiative.

Funding raised under the ESG Product Framework

As at 30 June 2020 the amount outstanding under the Framework was £188,149,813
This was raised through short term deposits.

3. Use of proceeds

Amounts equivalent to the proceeds raised under the Framework were allocated to ESG Assets.

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

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

The **Exclusion** applies where the Bond or Issuer does not meet the Group’s environmental, social and ethical risk management standards or energy lending policies.

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

ESG Asset Portfolio

Throughout the Reporting Period the proceeds raised under the Framework were allocated to ESG Assets. Portfolio composition on 30 June was as follows:

Issuer Name	Sector	Geography
European Stability Mechanism	Supranational	EMEA
International Finance Corporation	Supranational	Supranational
International Bank For Reconstruction and Development	Supranational	Supranational
European Investment Bank	Supranational	EMEA
KBN, Kommunalbanken Norway	Agency	EMEA
KfW, Kreditanstalt für Wiederaufbau	Agency	EMEA

As this is the first report there is no previous report to compare additions or deletions against.

4. Investment Evaluation and Selection process

Day to day management

The NatWest Markets Treasury team manages day to day funding and liquidity needs for NatWest Markets. This team were responsible for the creation of the products, the allocation of proceeds through selection of new ESG Assets for addition to the ESG Asset pool, and oversight of processes to confirm that assets and commitments allocated to the ESG Asset pool remain compliant with the criteria set out above.

On receipt of proceeds the NatWest Markets Treasury team identified ESG Assets to which to apply the proceeds.

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 is accountable to and reports to the NatWest Markets Asset & Liability Committee in respect of these oversight responsibilities.

Confirmation that the use of proceeds received conforms to the Framework

Statement from Rupert Mingay, NatWest Markets Treasurer

"I am pleased with this new product and the impact that it's had. I have reviewed the Report and the processes undertaken by my team in creating products and allocating investments to ESG Assets under the Framework and am happy to confirm the use of proceeds received conforms to the NWM ESG Product Framework."

The Report was presented to and approved by NatWest Markets Executive Disclosure Committee

5. 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 ESG ratings provided by ISS-ESG, allowing for regular confirmation that the assets and commitments continue to be eligible as ESG Assets.

There may be circumstances where there are unallocated proceeds; and in such instances the unallocated amounts will be held in high quality investments having the following criteria:

- Deposits with central banks, where the respective sovereign is an ESG Prime Obligor
- Government bonds from sovereigns that are ESG Prime Obligors
- 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-ESG. In this case it may be replaced with an alternative ESG Asset, and any interim unallocated proceeds will be managed as set out above.

While all proceeds received during the Reporting Period were allocated to the ESG Assets listed above, the following assets were available for temporary allocation:

Issuer Name	Sector	Geography
Bank of England	Sovereign	UK
Federal Republic of Germany	Sovereign	EMEA
Japan	Sovereign	APAC
Kingdom of the Netherlands	Sovereign	EMEA
United Kingdom	Sovereign	UK

No ESG Assets failed to meet the eligibility criteria following re-verification by ISS-ESG.

6. Reporting

This Report is the first NatWest Markets ESG Product report. The Report and the Framework are available on 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.

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