



NatWest
Group



Championing potential

A relationship bank for
a digital world

NatWest Group plc
2022 Climate-related Disclosures Report



Our 2022 reporting suite brings together key reports including NatWest Group's Annual Report and Accounts, Climate-related Disclosures Report which includes the initial iteration of our Climate transition plan and Environmental, Social and Governance Disclosures Report. The reports are intended to provide useful information to our stakeholders and are available at natwestgroup.com.



Group Annual Report and Accounts

Incorporating our 2022 Strategic report, Governance and remuneration report – including the annual report on remuneration – Risk and capital management report and latest financial statement and related notes.

Also included in our reporting suite:

Non-financial information datasheet which summarises our selected non-financial information data on our key ESG metrics.

2022 Basis of Reporting

which comprises our approach, scope, and controls for the sustainability metrics included in the reporting suite and within the scope of EY assurance.

On www.natwestgroup.com

Company announcement and Financial supplement

Our latest company information including our financial performance for the year with a focus on key metrics and measurement.

ESG Disclosures Report

An overview of our purpose in action and key environmental, social and governance matters including progress in 2022.

ESG Frameworks Appendix

Our progress with reference to industry-wide sustainability standards: UN Principles of Responsible Banking and Sustainability Accounting Standards Board (SASB) Standards.

Inside this report

1	Introduction	3
2	Governance	14
3	Strategy and Climate transition plan	21
4	Risk Management and scenario analysis	53
5	Metrics and Targets	66

[Link to NatWest Group glossary and abbreviations](#)

NatWest Group climate ambition

Climate is one of three areas of focus in our purpose-led strategy, alongside Enterprise and Learning.



Climate

We have made addressing the climate challenge and supporting our customers in their transition to net zero a strategic priority.



Enterprise

We are committed to removing barriers to enterprise and providing businesses in the UK with the support they need to grow.



Learning

We are helping people to take control of their finances, to make the most of their money, safely and securely – now and in the future.

As a founding signatory of the UN Principles for Responsible Banking, our ambition is to align our strategy with the 2015 Paris Agreement and the UN Sustainable Development Goals (SDGs). The Climate area of focus strives to make a positive impact on:



(SDG 7.1, 7.2, 13.1, 13.3, 17.7)

Case studies throughout this report reference positive impacts mapped against other SDGs.

Cautionary statement on inclusion

The Sustainable Development Goals (SDGs) are a collection of 17 non-legally binding interlinked global goals set forth by the UN for countries and governments. These are included only as indicative guidance for NatWest Group's ambition to align to its strategy to the UN Sustainable Development Goal and NatWest Group makes no representation, warranty, or assurance of any kind, express or implied, or takes no responsibility or liability as to whether NatWest Group's strategy furthers the objective or achieves the purpose of the indicated SDG.



Championing potential

**A relationship bank
for a digital world**

We are driven by our purpose and enabled by our strategy.

We remove barriers to create strong enterprises. We turn ambition into action to help tackle climate change. And we build financial capability through learning.

By supporting our customers at every stage of their lives, we can build long-term value, invest for growth, make a positive contribution to society and drive sustainable returns for shareholders.



1

Introduction

In this section

1.1 Welcome from our Group Chief Executive

1.2 Our climate strategy

1.3 Climate progress highlights

1.4 Our transition to net zero

1.5 TCFD: Climate-related disclosures overview

Note on materiality

The below should be considered when assessing and referencing materiality in the context of our climate-related disclosures.

Our public disclosures, including our climate-related disclosure, include a range of topics that we believe are relevant to our businesses and that are of interest to investors and other stakeholders. For the purposes of complying with our annual, periodic and interim disclosure obligations in the United Kingdom and the United States we apply a materiality standard based on the applicable rules and regulations governing public reporting in the United Kingdom and the United States. However, in our climate-related disclosures, we have adapted our approach to materiality based on both the subject matter and purpose of the disclosures. In particular, when we believe that doing so may allow us to better address climate-related matters of interest to our key stakeholders, our approach to these disclosures may sometimes have regard to broader understandings of materiality based on certain external frameworks and reporting guidelines that take into consideration a wider range of factors relevant to climate-related disclosures, including the views of our key stakeholders and our ambition to be a leading bank in the UK helping to address the climate challenge. To accommodate this approach to materiality, we may occasionally have regard to new frameworks and standards when we believe that doing so may allow us to better understand and address climate-related matters.

This report uses longer time frames to assess potential impacts than those time frames customarily used in certain of our other disclosures, including our annual, periodic and interim financial reports filed with the London Stock Exchange ('LSE') in the United Kingdom and the Securities and Exchange Commission ('SEC') in the United States. This approach to materiality means that this report, and many of our climate-related disclosures, including with respect to climate-related risks and opportunities, include certain information that we have not included in our LSE and SEC filings for which we use a different approach to materiality.

Our approach to materiality in this report and in other climate-related disclosures also means that statements made in this report and in our other climate-related disclosures use a greater number and level of assumptions and estimates than many of our LSE and SEC filings. These assumptions and estimates are subject to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, our climate risk and impact assessment capabilities and net-zero transition strategy and plan remain under development, and the data underlying these and market practice in relation to these disclosures also remain subject to evolution and change over time.

The information in this report includes non-financial metrics, estimates or other information that are subject to significant uncertainties, which may include the methodology, collection and verification of data, various estimates and assumptions, and/or underlying data that is obtained from third parties, some of which cannot be independently verified. As a result, we expect that certain disclosures made in this report may be amended, updated, recalculated and restated in the future as the quality and completeness of our data and methodologies continue to improve.





1.1

A welcome from our Group Chief Executive

Maintaining our momentum

Demonstrating our climate ambition



'NatWest Group has become the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the Science Based Targets initiative. These targets underpin the initial iteration of our Climate transition plan.'

Alison Rose, DBE
Group Chief Executive Officer

A plan for change

We want to deliver a more sustainable economy and future for the customers and communities we serve, which is why addressing climate change – one of the most critical issues of our time – is a strategic priority for the bank. It sits at the heart of our purpose, because we know that tackling climate change is not only good for the planet, but good for our customers and our business too.

NatWest Group has established itself as a leading voice for finance on tackling climate change. In 2022, we worked alongside the UK Government to support the UK Pavilion at COP27, co-hosting several high-profile events with customers and key stakeholders such as the Sustainable Markets Initiative. Closer to home, through our climate resolution, the Board gave shareholders their 'Say on Climate' asking them to support our strategic direction on climate change at the AGM. The resolution was endorsed by the vast majority of our shareholders, indicating strong support for our climate strategy.

Receiving the Sustainable Markets Initiative's Terra Carta Seal – which recognises organisations that are demonstrating their commitment to, and momentum towards, the creation of sustainable markets – acknowledges the progress we have been making towards our purpose and climate ambitions.

Significantly, NatWest Group has become the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the Science Based Targets initiative (SBTi). These targets underpin the initial iteration of our Climate transition plan (published in this report), which outlines the steps we aim to take to at least halve the climate impact of our financing activity by 2030 and achieve our net zero climate ambition by 2050.

We recognise that achieving our climate ambition and delivering the initial iteration of our Climate transition plan is dependent on a number of factors beyond our control, including technological innovation and changes in consumer behaviour. Crucially, as Mission Zero: Independent Review of Net Zero by the Rt Hon Chris Skidmore MP highlighted, there is an urgent need for consistent, long-term policy commitment from government in order to harness the growth opportunities generated through the transition to net zero.

Supporting our customers

Meanwhile, with increasing pressure on energy supplies and the rising cost of living, we have continued to help our customers navigate the transition to net zero. With practical support such as the launch of a Green Homes Retrofit Pilot and innovative solutions such as the EPC awareness feature in our customer mortgage portal, we continue to help customers better understand their emissions and the steps they can take to reduce their carbon footprint. And to help businesses in their transition to more sustainable practices, we reduced the threshold for our universal Green Loan for SMEs from £50,000 to £25,001.

We have now provided £32.6 billion of climate and sustainable funding and financing against our target to provide £100 billion between 1 July 2021 and the end of 2025, which includes £27.2 billion across Commercial & Institutional, as well as mortgage lending for EPC A and B homes totalling £5.1 billion in Retail Banking and £0.2 billion in Private Banking. Elsewhere, through our new Carbon Planner tool, UK businesses are gaining fresh insight to unlock potential cost and carbon savings.

However, we recognise that we still must do more to achieve our climate ambition and alignment with the 2015 Paris Agreement. Support from policy makers as well as collaboration across the private sector will be vital for mobilising the finance necessary to fund the infrastructure of future green economies. Initiatives such as Carbonplace, where we have joined forces with other financial institutions to create a global carbon credit transaction network, or the Sustainable Homes and Buildings Coalition, which NatWest Group launched with British Gas, Worcester Bosch and Shelter, to improve UK building energy efficiency, are great examples of how this cross-industry partnering can have meaningful real-world impact.

We acknowledge as well the evolving and often imperfect nature of climate data currently available. We aim to use the best available methodologies and make our analysis as robust and transparent as possible, now and in the future. As such, this report demonstrates that we remain focused on the task ahead, aware of both our current responsibilities and the opportunity of being part of the climate solution.

Alison Rose, DBE
NatWest Group Chief Executive Officer



1.2

Our climate strategy

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

Our climate ambition is to be a leading bank in the UK, helping address the climate challenge.

We have an ambition to be net zero by 2050 across our financed emissions, assets under management (AuM) and our operational value chain

Our 2030 climate ambitions

We have an ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, and align with the 2015 Paris Agreement.

We plan to reduce carbon intensity of our in-scope AuM by 50% by 2030, against a 2019 baseline, and to move 70% of in-scope AuM to a net-zero trajectory.⁽¹⁾

We plan to reduce emissions for our operational value chain by 50%, against a 2019 baseline.

How we are helping to address the climate challenge



Supporting customer transition to net zero

We have a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.

We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our mortgage portfolio has an EPC rating of C or above by 2030.



Helping to end the most harmful activities

We plan to phase-out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase-out by 1 January 2030.



Powerful partnerships and collaborations

We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.



Getting our own house in order

Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.

We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise-wide risk management framework (EWRMF).

We have a target to reduce our direct own operations emissions by 50% by 2025, against a 2019 baseline.

We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).

We plan to install electric vehicle charging infrastructure in 15% of spaces across our UK portfolio by 2030 and upgrade our fleet of around 100 vehicles to electric by 2025 (EV100).

For details of our approach to Nature and Biodiversity refer to the 2022 NatWest Group plc Environmental, Social and Governance (ESG) Disclosures Report

Achievement of our climate ambitions is dependent on timely, appropriate government policy, technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. Refer to section 3 for further details. For further detail on our climate ambitions and SBTi targets refer to sections 1.3 and 3.3.

(1) Refer to pages 38 to 39 of the Net Zero Asset Managers Initiative's Initial Target Disclosure Report (May 2022).



1.3

Climate progress highlights

In line with our climate ambition and focus on sustainable growth, NatWest Group was proud to become the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the Science Based Targets initiative (SBTi). In 2022, we gave shareholders a Say on Climate at our AGM, with 92.58% of votes cast in favour of the resolution, supporting our strategic direction on climate change and our intention to develop a Climate transition plan,⁽¹⁾ with annual progress reports to be published.



Supporting customer transition to net zero

£32.6bn^(*)

Cumulative contribution towards £100 billion climate and sustainable funding and financing target⁽²⁾

2021: £8.1bn (1 July - 31 Dec)

£2.9bn^(*)

Retail Banking Green Mortgage completions since launch⁽³⁾

2021: £0.7bn

41.5%^(*)

Percentage of EPC C or better rated homes in our UK mortgage portfolio for which EPCs are available (£138.8bn or 68% of our UK mortgage portfolio)

2021: 38.3%



Helping to end the most harmful activities

£0.3bn^(*)

Exposure to in-scope coal customers⁽⁴⁾

2021: £0.6bn

0.7%^(*)

Exposure⁽⁵⁾ to the oil and gas sector as a percentage of NatWest Group total remained stable compared with the previous year

Reserve based lending

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. After 31 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



Powerful partnerships and collaborations

Engage

We continued to collaborate with policy makers, peers and bodies such as GFANZ and the Transition Plan Taskforce to support a net-zero transition

330,000+

Customers accessed our carbon tracking tool, developed in collaboration with Cogo and available through our Retail Banking mobile app⁽⁶⁾ in 2022

Retrofit pilot

We are partnering with Places for People, British Gas Centrica and Schneider Electric – coordinated by Pineapple Sustainable Partnerships – to show that retrofitting homes at scale can be an achievable and affordable goal



Getting our own house in order

79%

of our lending exposure, as at 31 December 2019, covered by 2030 sector targets validated by the Science Based Targets initiative (SBTi)

46%

Reduction in emissions in our direct own operations⁽⁷⁾, against a 2019 baseline

2021: 44%⁽⁸⁾

10%

of NatWest Group's Executive Directors' annual bonus is based on performance against our climate ambitions⁽⁹⁾

(1) Achievement of the initial iteration of our Climate transition plan, published in this report, is dependent on timely, appropriate government policy, technology developments, as well as on our customers and society to respond.

(2) Between 1 July 2021 and the end of 2025.

(3) Since launch in Q4 2020. Retail Banking Green Mortgage products only. Green Mortgages are available to all intermediaries for all residential and Buy-to-Let properties with an energy performance rating of A or B and specific new build developer properties. Available for Purchase, Porting and Re-mortgage applications.

(4) As defined in the Credible Transition Plan (CTP) assessment. Refer to pages 30 – 31 of the NatWest Group plc 2021 Climate-related Disclosures Report for further details on the assessment of CTPs for oil and gas majors and in-scope coal customers.

(5) As at 31 December 2022. Based on gross lending (amortised cost and Fair Value through Other Comprehensive Income (FVOCI), gross of Expected Credit Loss (ECL)) and related off balance sheet exposures.

(6) Retail Banking RBS, NatWest and Ulster Bank Northern Ireland mobile apps.

(7) Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.

(8) Historic values are updated from values reported in 2021. This is due to updated bills, data provision and extrapolations.

(9) See Directors' Remuneration Report within 2022 Annual Report and Accounts for further details.

(*) Within scope of EY assurance. Refer to page 10.



Climate progress highlights continued

Our 2030 ambitions

We have an ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, and align with the 2015 Paris Agreement.

We plan to reduce the carbon intensity of our in-scope Assets under Management (AuM) by 50%, against a 2019 baseline, and to move 70% of our in-scope AuM to a net-zero trajectory.

We plan to reduce emissions for our operational value chain by 50%, against a 2019 baseline.

2022 outcome

- We continued to develop our measurement capability. This included announcing 2030 sector targets validated by the SBTi as science based for 79% of our lending book at December 2019.
- We developed the initial iteration of our Climate transition plan. See section 3 for further details.

- We published our interim net zero strategy and ambitions, considering 89% of AuM to be in-scope for net zero⁽¹⁾.
- We redesigned our core investment products incorporating our focus on net zero into fund and portfolio documentation.
- We reduced the carbon intensity of equity holdings of our in-scope AuM by a weighted average of 30%⁽²⁾ per fund/portfolio (compared to a baseline of 2019 carbon intensity, weighted using 2022 AuMs).

- We started to use spend data and publicly sourced sector-specific emission factors to calculate our supplier emissions. We established a multi-year Supplier Decarbonisation Programme to support delivery of our 2030 and 2050 carbon reduction targets.

Future priorities

- NatWest Group will continue to evolve our Climate transition plan during 2023 including further work on the systems thinking approach. This will include continuing to develop products and services to support our customer transition as well as continued external engagement with industry and government (see section 3.4).
- To support our ambition to align 50% of in-scope AuM to a net-zero trajectory by 2025, we plan to make more climate-related data available to customers to increase awareness of the progress being made across in-scope AuM.
- We plan to continue our engagement with fund managers and companies to set climate strategies that are aligned to a net-zero trajectory.
- We plan to continue emission reductions within our own operations, alongside investments to mitigate greenhouse gas emissions, in line with SBTi guidance.

Ambition

2022 outcome

Future priorities



Supporting customer transition to net-zero

We have a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.

We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our UK mortgage portfolio has an EPC rating of C or above by 2030.

- In the year ended 31 December 2022, we provided £24.5 billion of climate and sustainable funding and financing.
- We have now provided £32.6 billion^(*) of climate and sustainable funding and financing towards our £100 billion target between 1 July 2021 and the end of 2025. This includes £5.4 billion for EPC A and B rated residential properties.

- As at 31 December 2022, 41.5%^(*) (31 December 2021 38.3%) of our UK residential mortgages portfolio that had EPC data available⁽³⁾ was rated as EPC C or higher.

- We will continue to develop products and services to support customer transition to net zero.

- We aim to provide an additional £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025 as part of our climate and sustainable funding and financing target.



Helping to end the most harmful activity

We plan to phase-out of coal for UK and non-UK customers who have UK coal production, coal-fired generation and coal-related infrastructure by 1 October 2024, with a full global phase-out by 1 January 2030.

- Exposure to coal customers, as defined in the Credible Transition Plan (CTP) assessment completed in 2021, was £0.3 billion^(*) as at 31 December 2022 (£0.6 billion as at 31 December 2021). For further details on our ESE policies refer to page 41. See section 5.1 for further detail on heightened climate-related risk sectors.

- As a member of the Powering Past Coal Alliance, we aim to support the organisation's goal to advance the transition from unabated coal power generation to clean energy, and continue to phase-out of coal, in line with our 2024 and 2030 ambitions.

(1) Refer to pages 38 to 39 of the [Net Zero Asset Managers Initiative's Initial Target Disclosure Report](#) (May 2022).

(2) For AuM, carbon intensity is calculated as tons of Scope 1 and Scope 2 carbon emissions per \$1 million of sales. This is measured for equity holdings only which, as at 31 December 2022, made up 52.5% of overall AuM. Carbon intensity data is sourced from Morningstar at the underlying fund level. Carbon intensity is aggregated at the fund/portfolio level, then weighted based on AuM for 31 December 2022. To produce a carbon intensity reduction figure, a comparison is done at the fund/portfolio level only against baseline fund/portfolio

data, then weighted based on 31 December 2022 AuM for all in-scope AuM. As a result, the movement in AuMs between 31 December 2022 and the 31 December 2019 baseline has not been considered. Where external data is unavailable and where deemed appropriate, proxies are selected that match the fund characteristics. Figure reported is based on external data as at 30 September 2022.

(3) As at 31 December 2022, £138.8 billion, 68%, of the total residential mortgages portfolio had EPC data available.

(*) Within scope of EY assurance. Refer to page 10.



Climate progress highlights continued

Ambition	2022 outcome	Future priorities
Powerful partnerships and collaborations <p>We plan to collaborate across industry and create products and services to enable customers to track their carbon impact.</p>	<ul style="list-style-type: none"> Engaged with policymakers and officials on a range of climate-related topics, recognising the importance of collaboration and significant role that policy has to play in providing the long-term frameworks, incentives and certainty required for progress on net zero. As part of the Sustainable Homes and Buildings Coalition, we engaged on the need to improve the energy efficiency of the UK's housing stock, focusing on how this can be accelerated. Engaged with peers, policy makers and stakeholders through GFANZ, Transition Plan Taskforce, NZBA, Financial Markets Stability Board and NZAM initiative to facilitate a net-zero transition. 	<ul style="list-style-type: none"> We will continue to enhance our partnerships to create opportunities for supporting customer transition. These include: <ul style="list-style-type: none"> Working with Places for People, British Gas Centrica and Schneider Electric - coordinated by Pineapple Sustainable Partnerships - to work together on a pilot project to show that retrofitting homes at scale can be an achievable and affordable goal. Exploring how we can work with the Supply Chain Sustainability School to share the knowledge and build the skills needed to retrofit homes across the UK.
Getting our own house in order <p>Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.</p>	<ul style="list-style-type: none"> Climate considerations continue to be included in senior executive remuneration and as part of the bonus pool assessment for our wider workforce, recognising its central role in our strategy. Refer to the Directors' Remuneration Report in the 2022 Annual Report and Accounts for further details. 	<ul style="list-style-type: none"> We will continue to embed climate in decision-making including regular monitoring of progress against our climate ambitions.
<p>We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise-wide risk management framework (EWRMF).</p>	<ul style="list-style-type: none"> Increasing use of quantification in risk assessments with enhanced analytics capabilities under development for integration in the EWRMF. Enhancement of core strategic climate risk modelling capabilities and initial integration into risk management and customer journeys. 	<ul style="list-style-type: none"> Work will continue to further integrate climate-related risk across business processes to achieve full integration within risk management and decision-making.
<p>We have a target to reduce our direct own operations emissions by 50% by 2025, against a 2019 baseline.</p>	<ul style="list-style-type: none"> We reduced our direct own operations emissions by 46%, against a 2019 baseline. 	<ul style="list-style-type: none"> We plan to continue emission reductions within our direct own operations, alongside investments to mitigate greenhouse gas emissions, in line with SBTi guidance.
<p>We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).</p>	<ul style="list-style-type: none"> We increased our consumption of renewable electricity to 98% across our global operations. For operations in the UK and Republic of Ireland, electricity consumption used 100% renewable electricity. Energy productivity has increased by 41% since 2015, and electricity consumption decreased by 8% since 2021. 	<ul style="list-style-type: none"> We intend to work with our principal landlords to advocate for renewable electricity provision for all properties. Our aim is to maintain energy efficiency improvements following a safe return to office-based working.
<p>We plan to install electric vehicle charging infrastructure in 15% of large office space across our UK portfolio by 2025 and upgrade our fleet of 100 vehicles to electric by 2025 (EV100).</p>	<ul style="list-style-type: none"> As at 31 December 2022, we had installed electric vehicle charging points in 13% of our large office car park spaces across our UK portfolio. In addition, as part of our ambition to electrify our fleet, we reviewed and reduced our fleet size from 300 to approximately 100 vehicles, of which 3% are EVs. 	<ul style="list-style-type: none"> We aim to apply lessons from the EV100 plan to our global operations using electric transport where available and provide electric vehicle chargers for colleagues at our Indian offices. We are also designing an electric vehicle mobile branch pilot and supporting charging infrastructure to enable further roll-out.



1.4

Our transition to net zero

NatWest Group has been a signatory to the United Nations Environment Programme Finance Initiative (UNEP FI) since 1997 and the Equator Principles since 2003. We have come a long way since activists protested against our financing of oil, gas and coal in 2010. In 2011, we launched our Environmental, Social & Ethical (ESE) Risk Framework, which required enhanced due diligence for certain lending and loan underwriting customer relationships, transactions, activities and projects. We recognise that through our financing activity

NatWest Group may contribute to climate change. As the initial iteration of our Climate transition plan illustrates, we are committed to playing our part in addressing the climate challenge, but we cannot transform the real economy on our own. Ultimately, success will be determined by society's willingness to adapt, supported by consistent, long-term government policy and continuing technical innovation.

Bank of England publishes SS3/19, outlining how banks should manage climate-related financial risks

Founding members of Glasgow Financial Alliance for Net Zero (GFANZ), Net Zero Banking Alliance (NZBA) and members of Powering Past Coal Alliance

Joined Net Zero Asset Managers (NZAM) initiative
Principal partner for COP26

Target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.

Target to reduce emissions from direct own operations by 50% by 2025, against a 2019 baseline

Ambition to achieve net zero across our financed emissions, AuM and operational value chain

2015

2019

2020

2021

2022

2025

2030

2050

Task Force on Climate-related Financial Disclosures (TCFD) created by the Financial Stability Board

Announced our purpose-led climate ambition

SBTi issues financial services sector science-based targets guidance

First major UK bank to join Partnership for Carbon Accounting Financials (PCAF)

Annual General Meeting Say on Climate resolution

Science-based targets validated by SBTi for 79% of our lending book and own operational emissions.

Initial iteration of Climate transition plan developed

Launched Carbon Planner to support customer transition
Launched Carbonplace

Ambition to at least halve the climate impact of our financing activity, against a 2019 baseline, and align with the 2015 Paris Agreement

Ambition that 50% of our UK mortgage portfolio has an EPC rating of C or above by 2030

Reduce emissions for our wider operational value chain by 50%, against a 2019 baseline

Plan to reduce the carbon intensity of our in-scope AuM by 50%, against a 2019 baseline, and align 70% of in-scope AuM to a net-zero trajectory

Key opportunities to support the transition

There is a dependency on timely, appropriate government policy, technology developments, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a net-zero economy. Further detail on how we are exploring potential opportunities and dependencies for transition is available in section 3 of this report.

Financed emissions

- Provision of £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.
- Development of carbon tracking tools.
- Enhanced customer and colleague education tools.
- Building powerful partnerships to support customer transition.

Asset Management

- Move 50% of in-scope AuM to a net-zero trajectory by 2025.
- Voting and engagement in line with net zero, including support for climate-related shareholder resolutions.
- Continue to build net zero into our investment process and our engagement with funds.

Operational value chain

- Install electric vehicle charging infrastructure in 15% of large office space across our UK portfolio by 2025.
- 100% renewable electricity across our global operations.
- Continue to increase energy efficiency in our buildings through updated technology, design and data analysis.
- Review the buildings we occupy and move to more sustainable buildings where appropriate.



1.5

TCFD: Climate-related disclosures overview

NatWest Group publicly committed to support the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in 2017. During 2022, we continued to evolve our alignment with the TCFD recommendations as summarised in the following tables.

NatWest Group confirms that it has:

- made climate-related financial disclosures for the year ended December 31, 2022 that it believes are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations and Recommended Disclosures (as defined in the FCA's Listing Rules, as amended by the Disclosure of Climate-Related Financial Information (No 2) Instrument 2021) which include (i) "Recommendations of the Task Force on Climate-related Financial Disclosures" (June 2017) (focusing in particular on the four recommendations and the eleven recommended disclosures set out in Figure 4 of Section C of the TCFD Final Report); (ii) "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (October 2021 version); (iii) "Guidance on Metrics, Targets and Transition Plans" (October

2021 version); (iv) Technical Supplement - "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" (June 2017); and (v) "Guidance on Risk Management Integration and Disclosure" (October 2020) and summarised in the tables on pages 10-14;

- set out these disclosures in this report and in the "NatWest Group 2022 Annual Report and Accounts", both published on 17 February 2023 (and available on natwestgroup.com); and
- adopted this approach given the detailed and technical content of the climate-related financial disclosures as it believes these presentations best present its climate-related financial disclosures in a decision-useful manner to the users of these reports.

Governance	Strategy	2022 progress	Future priorities	Section
Governance				
NatWest Group's governance around climate-related risks and opportunities				
The Board's oversight of climate-related risks and opportunities		<ul style="list-style-type: none"> 92.58% of votes cast were in favour of our Say on Climate resolution, indicating strong shareholder support for our climate strategy. The NatWest Group Board and Board committees oversaw the development of the initial iteration of our Climate transition plan and approved the plan prior to publication. 	<ul style="list-style-type: none"> Board and Executive Committee (ExCo) continuing oversight of delivery, and ongoing development, of the initial iteration of NatWest Group's Climate transition plan, development of customer level decision-making tools as well as regular monitoring of climate ambitions. 	2.1, 2.2
Management's role in assessing and managing climate-related risks and opportunities		<ul style="list-style-type: none"> Business areas have enhanced local governance forums to support an integrated management response to delivering our climate ambitions, development of the initial iteration of our Climate transition plan, the identification of climate-related opportunities and the effective management of climate-related risks. In addition, cross-bank climate-related forums continue to provide strategic insight and expertise, supporting collaboration and ensuring a One Bank approach to climate governance. 	<ul style="list-style-type: none"> Continue to build knowledge and further embed operating models and business processes across the organisation to support the oversight and management of climate-related risks and opportunities within NatWest Group's overall business strategy and risk appetite. 	2.1, 2.3, 2.4

Assurance approach

NatWest Group plc appointed Ernst & Young LLP (EY) to provide independent assurance over certain sustainability metrics, indicated with (*) in this report. The assurance engagement was planned and performed in accordance with the International Standard on Assurance Engagements (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 (July 2020)"). An assurance report was issued and is available at natwestgroup.com. This report includes further details on the scope, respective responsibilities, work performed, limitations and conclusion.



TCFD: Climate-related disclosures overview continued



	2022 progress	Future priorities	Section
Strategy			
The actual and potential impacts of climate-related risks and opportunities on NatWest Group's businesses, strategy and financial planning			
Climate-related risks and opportunities identified over the short, medium and long-term	<ul style="list-style-type: none"> NatWest Group's climate ambition, announced in February 2020, recognises various short, medium and long-term⁽¹⁾ climate-related risks and opportunities to embed climate in our business and culture, as well as support our customers in their transition to net zero. 	<ul style="list-style-type: none"> Continue to integrate climate-related decision-making in business activities. 	3.1, 3.2, 4.2, 5.1
The impact of climate-related risks and opportunities on our businesses, strategy and financial planning	<ul style="list-style-type: none"> We developed the initial iteration of our Climate transition plan. This plan focuses on the delivery of our 2030 decarbonisation ambitions and will inform further work on our journey to net zero by 2050 across our financed emissions, assets under management and our operational value chain. We have enhanced the financial planning process to incorporate actions included within the initial iteration of our Climate transition plan and also used the financial forecasts to consider impacts on our Climate transition plan. We continued to harness climate-related opportunities including providing climate and sustainable funding and financing and a range of green loan products and services. 	<ul style="list-style-type: none"> We will continue to work on aligning the financial planning and transition planning processes. We will further enhance carbon planning, measurement and tracking capability to support the ongoing development of our Climate transition plan. 	1.2, 1.3, 1.4, 2.3, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.2, 4.2a, 4.3, 5.4, 5.5, 5.7
The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<ul style="list-style-type: none"> We ran internal scenario analysis and completed round two of the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise, as well as developing internal scenario analysis tools and core strategic climate risk modelling capabilities to embed within our existing risk management processes. This work allowed us to assess our exposure to climate-related risk across our lending book and provided insights which we continue to incorporate within our climate strategy and to inform work on the initial iteration of our Climate transition plan. One of the key lessons from this work is that while climate-related risks could potentially amplify other risk drivers, for example resulting in effects such as the erosion of competitiveness, profitability, or reputational damage, overall NatWest Group is resilient to these risks, within the context of the scenarios tested, and we will continue to monitor and manage this through our enterprise-wide risk management framework (EWRMF). A priority area of focus for NatWest Group in 2022 has been the continued enhancement of how we incorporate climate risk into our capital adequacy assessment process (ICAAP) and strategic planning process. This ensures that we have sufficient capital for the most material source of climate-related risk over the capital planning horizon. 	<ul style="list-style-type: none"> Continue to enhance scenario modelling and analytic capabilities. Address challenges related to the availability of granular, reliable and verifiable customer data. Respond to developing regulatory requirements on the approach to climate-related risk within the regulatory capital regime. 	4.2a, 5.5

(1) Our climate transition planning uses different time frames than those used in financial reporting. Accordingly, the references to "short", "medium" and "long term" in climate reporting are not indicative of the meaning of similar terms used in certain of our other disclosures, including our annual, periodic and interim reports.



TCFD: Climate-related disclosures overview continued



	<input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	2022 progress	Future priorities	Section
Risk Management				
How NatWest Group identifies, assesses and manages climate-related risks				
Our processes for identifying and assessing climate-related risks		<ul style="list-style-type: none"> We reviewed and refreshed our assessment of the relative significance of climate risk on other principal risks. This assessment used the judgement of risk subject matter experts combined with scenario analysis, increased granularity of climate data, as well as improved understanding of evolving regulatory guidance to understand the current and potential impact of physical and transition climate-related risk as a causal factor to other principal risks. We identify and assess climate-related risks through three principles: <ul style="list-style-type: none"> Undertaking scenario analysis to understand the potential impacts of climate-related risks. Identifying segments of our portfolio and operations with heightened climate-related risk exposure. In 2022 we established an increasingly quantitative methodology for the identification and assessment of heightened climate-related risk sectors and subsectors. Assessing individual customer and supplier climate-related risk exposure. In 2022, we completed the development and launch of qualitative climate risk scorecards and conducted sustainability assessments of our suppliers. NatWest Group regularly considers existing and emerging regulatory requirements related to climate change through external horizon scanning and monitoring of emerging regulatory requirements. 	<ul style="list-style-type: none"> Scaled implementation of quantitative scorecards within credit assessment processes. 	4.2, 4.2a
Our processes for managing climate-related risks		<ul style="list-style-type: none"> We launched preliminary shadow operational limits supported by EPC for transition risk and physical flood risk data, to monitor the performance of the current Retail Banking mortgage portfolio and new mortgage business. Credit assessment processes have been improved to support customer interactions, including mandatory climate conversations with in-scope⁽¹⁾ customers. These conversations reflect the specificity of sector and asset class, and the size and sophistication of these customers. 	<ul style="list-style-type: none"> Evolution and application of appropriate credit limits informed by climate-related risk and transition plans. Continued evolution and monitoring of Environmental, Social and Ethical Risk Acceptance Criteria in accordance with framework. Review of internal control standards in response to the outcomes of the non-financial risk scenario. 	4.3
How our processes for identifying, assessing and managing climate-related risks are integrated into overall risk management		<ul style="list-style-type: none"> We continued to mature our integration of climate risk within NatWest Group's risk management. This involved increased use of quantification in risk assessments with enhanced analytics capabilities under development for integration in the enterprise-wide risk management framework (EWRMF). Enhanced reporting to relevant senior governance forums covering areas of risk concern across all material sectors and portfolios. Regular monitoring of an initial suite of quantitative key climate risk indicators. 	<ul style="list-style-type: none"> Work will continue to further integrate climate-related risks across business processes to work towards full integration within our risk management framework and business-as-usual decision-making. 	4.1, 4.2, 4.2a, 4.3

(1) Guidance on in-scope customers is tailored to each business area and detailed in the Climate Transaction Acceptance Standards Handbook. For example, for Business Banking Relationship Managers the criteria is - new or increased lending applications of £50,000 and above.



TCFD: Climate-related disclosures overview continued



		2022 progress	Future priorities	Section
Metrics and Targets				
The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material				
The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process		<p>Metrics used to assess climate-related risks:</p> <ul style="list-style-type: none"> Exposures to heightened climate-related risk sectors; Energy efficiency and flood risk assessment for UK residential mortgage portfolio; NatWest Group's own operational footprint; Estimates of financed emissions based on absolute emissions and emissions intensities, including progress against sectoral decarbonisation pathways; Estimates of facilitated emissions from corporate bond underwriting. <p>Metrics used to assess climate-related opportunities:</p> <ul style="list-style-type: none"> Climate and sustainable funding and financing; NatWest Group's Own Green Bond issuance. <p>Refer to the Directors' Remuneration Report in the NatWest Group plc 2022 Annual Report and Accounts for further details of integration of climate considerations into remuneration.</p>	<ul style="list-style-type: none"> Continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities. Continue to develop measurement, monitoring and reporting capabilities for Asset management. Continue to monitor evolving carbon measurement standards and enhance capabilities including continuing engagement with PCAF on finalisation of the financed emissions standard 	3.2, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7
Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks		<ul style="list-style-type: none"> We continued to develop and enhance capabilities to measure emissions in relation to our own operations as well as financed emissions. We reduced emissions from our direct own operations by 46%, against a 2019 baseline, and increased our renewable electricity consumption to 98%. 	<ul style="list-style-type: none"> Continue our work to enhance the availability of data and data quality to support future calculations of financed emissions including absolute emissions and emissions intensities. 	5.4, 5.5, 5.7
The targets used to manage climate-related risks and opportunities and performance against targets		<ul style="list-style-type: none"> Our stated climate ambition is to be a leading bank in the UK helping to address the climate challenge. We have an ambition to achieve net zero by 2050 across our financed emissions, assets under management and our operational value chain. Progress is monitored via climate-related targets and ambitions across the following thematic opportunities: supporting customer transition to net zero, helping to end the most harmful activities, powerful partnerships and collaborations and getting our own house in order. NatWest Group was the first UK bank, and one of the largest banks globally to date, to have science-based targets validated by the SBTi. Our portfolio targets cover 79% of lending activities by outstanding exposure as at 31 December 2019. 	<ul style="list-style-type: none"> Continue to monitor our performance against our climate-related targets and ambitions and revise as appropriate. 	1.2, 1.3, 1.4, 3.1, 3.3, 3.4, 5.4, 5.5, 5.7

**2**

Governance

Board and senior management oversight of climate-related risks and opportunities is supported by embedding climate within our established governance structure and operating rhythm.

In this section

- 2.1 Climate governance model
- 2.2 Board oversight
- 2.3 Executive oversight and management responsibilities
- 2.4 Asset Management governance





2.1

Climate governance model

NatWest Group's climate governance structure is detailed in the chart below⁽¹⁾. Further detail of the Board's oversight of climate-related risks and opportunities is set out in section 2.2 and management's role in assessing and managing risks and opportunities is detailed in section 2.3.

Board Level governance

NatWest Group plc Board – Establishes purpose, sets strategic aims, monitors and oversees progress against strategic climate targets

Group Board Risk Committee

Considers current and potential future climate risk exposures

Group Sustainable Banking Committee

Oversees progress against our purpose and climate ambition

Group Nominations and Governance Committee

Monitors NatWest Group's governance arrangements and oversees review of Board skills and succession planning activity

Group Audit Committee

Considers financial and non-financial disclosures and receives assurance regarding the robustness of controls supporting these disclosures

Group Performance and Remuneration Committee

Oversees link between climate strategy and remuneration

Executive governance

Group CEO — Joint SMF⁽²⁾ accountability for identifying and managing financial risks from climate change, together with the Group Chief Risk Officer (Group CRO).

Executive team — joint accountability or delegated responsibility from the Group CEO for identifying and managing financial risks from climate change – Group CRO, Chief Financial Officer (Group CFO), Group Chief Information Officer (Group CIO), Group Chief People and Transformation Officer (Group CPTO), Director, Strategy, Corporate Development and Sustainability and the business CEOs.

Executive Risk Committee

Chaired by and supporting the Group CEO. Reviews and challenges all material risk exposures including operational, reputation and climate risk.

Climate Change Executive Steering Group (CCESG)⁽³⁾

Chaired by the CEO, RBS International⁽⁴⁾, supporting the SMFs and delegates. Responsible for delivery and implementation of strategic climate ambitions.

Executive Disclosure Committee

Chaired by and supporting the Group CFO, together with its ESG⁽⁵⁾ Disclosure Steering Group, reviews all significant disclosures, including climate disclosures.

Group Reputational Risk Committee

Chaired by and supporting the Group CRO, considers the reputational impact of significant climate decisions, including risk appetite, policy and customer acceptance.

Business and Functional governance

CEO-2/3 delegates (Climate Sponsors) — Nominated by their accountable executives, these franchise and functional representatives collaborate via the core groups listed below to support delivery of our climate ambitions, in addition to local, business-level governance arrangements as designed by them to support the Sponsors/ExCo members.

Retail Banking Climate Steering Group

Wealth Businesses Climate Change Steering Group

Commercial & Institutional RFB Climate Engagement Forum⁽⁶⁾

RBS International Environmental, Social and Governance Steering Group⁽⁷⁾

NatWest Markets Climate and Sustainability Committee Steering Group⁽⁸⁾

Own Operations Executive Steering Group

Climate Data Steering Group

Core Cross-Bank Working Groups

Climate Risk Oversight Forum

Chaired by Risk — Supports Climate Risk's oversight responsibilities.

Measurement and Reporting Steering Group

Chaired by Finance and CCoE⁽⁹⁾ — Coordinates development of the Climate transition plan.

Climate Opportunities Group

Chaired by Retail and Commercial & Institutional in partnership with CCoE — Responsible for scoping and monitoring of climate opportunities across five climate themes.

(1) For further information on NatWest Group's corporate governance framework refer to the Corporate Governance section of the 2022 Annual Report and Accounts.

(3) For further details see section 2.3

(6) Relating to ring-fenced bank activity

(9) Climate Centre of Excellence

(4) Previous Director, Strategy & Ventures who continues to chair the forum

(7) Relating to activity outside of the ring-fenced bank

(2) Senior Manager Function holder (Group CEO and Group CRO)

(5) Environmental, Social and Governance (ESG)

(8) Relating to non ring-fenced bank activity



2.2

Board oversight

The following pages set out how the NatWest Group plc Board (the Board) oversaw climate-related risks and opportunities during 2022. Further detail on the Board composition can be found on page 93 of the 2022 Annual Report and Accounts.

Board considered climate-related matters at six of eight scheduled meetings during 2022

The Board received updates from the Group CEO and other senior executives on climate-related risks and opportunities impacting NatWest Group, our customers and key stakeholders. A climate-related priority for the Board during 2022 was overseeing the development of NatWest Group's Climate transition plan. The Board received regular updates in July, October and December, which included a discussion of the key opportunities and challenges presented by the transition planning process and approval of climate risk appetite measures. Our external adviser, Lord Stern, provided his feedback on the Climate transition plan and how NatWest Group compared to peers.

A Board business insights pack, which includes a snapshot of NatWest Group's progress against our climate ambition, was received in advance of every

Board meeting. The Board also received regular updates through the Group CEO report, risk management report and business updates. Committee chairs also provided the Board with an overview of relevant discussions of climate issues at committee meetings.

A new operating rhythm for Board engagement and oversight of strategy included more frequent strategy sessions with management and interactive sessions informed by stakeholder views. Climate ambitions and supporting customers' sustainability transitions were considered as part of the Board strategy sessions in March, June and October. **In February 2023, the Board approved the initial iteration of our Climate transition plan included in this report.** Progress will be tracked at executive and Board level.

Key climate-related matters discussed and approved by Board during 2022 include:

February

Approved:

- 2021 Climate-related Disclosures Report and 2021 ESG Supplement.
- Submission of a Say on Climate resolution to shareholders at the 2022 AGM – see spotlight opposite.
- Annual budget including consideration of carbon budget.
- Executive Director (ED) bonus scorecard, including climate targets.

March

Approved the AGM Letter to Shareholders which included a statement supporting the Say on Climate resolution.

Approved the results of round two of the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise.

April

Received an assessment of progress on embedding purpose and updates on each of the focus areas of enterprise, climate and learning.

July

Considered an update on NatWest Group's Climate transition plan.

Received a spotlight on Carbonplace.

December

Approved climate risk appetite measures and considered climate budgeting considerations as part of the overall 2023 Budget.

Considered final update on Climate transition plan for anticipated disclosure in 2023.

Determined the final performance assessment of the climate targets linked to the ED scorecard.

Giving our shareholders a Say on Climate

92.58%⁽¹⁾

of votes cast were in favour of the resolution

In 2022, NatWest Group gave its shareholders a Say on Climate at its AGM. Through NatWest Group's climate resolution, the Board asked shareholders to vote on our strategic direction on climate change, our intention to develop a Climate transition plan, and to publish annual progress reports.

In presenting the advisory resolution to shareholders, the Board intended to promote transparency about our climate ambitions and strategic direction and to obtain feedback to help shape the Climate transition plan. Constructive dialogue with shareholders and other stakeholders in the months preceding the AGM indicated support for a resolution.

The resolution received a 92.58%⁽¹⁾ votes cast in favour of the resolution, indicating strong shareholder support for our climate strategy and reporting plans. We will continue to monitor market practice and industry guidance as part of our annual review.

The Board and management team are committed to ongoing engagement with our shareholders and stakeholders on our climate progress.

Building knowledge and understanding in the Boardroom and beyond

In October 2022, the Board received its annual climate training session, led by the Director of the University of Edinburgh Centre for Business, Climate Change and Sustainability. The tailored session centred on specific themes including influencing strategy, institutional change and climate measurement.

Focused on creating space for discussion, reflection and debate, the training session introduced tools to help Board members consider their role and influence in shaping NatWest Group's ambition to tackle climate change. The resulting discussions helped to give attendees a deeper understanding and

fresh perspectives on key challenges such as sustainability integration and impact measurement.

In addition to Board education, we have continued to provide resources for our colleagues and customers. For further details of how climate education is helping to embed climate change awareness among colleagues, customers and communities, see section 3.5. Information on how education continues to enhance our approach to the identification, assessment and management of climate-related risks and opportunities can be found in section 4.3.

(1) Votes cast with regard to the Say on Climate resolution (whether for or against) represent 85.96% of NatWest Group's Total Voting Rights.



Board oversight continued

Group Board Risk Committee

The Group Board Risk Committee (BRC) considered climate-related matters at all eight of its scheduled meetings in 2022

During 2022, climate risk reporting became increasingly embedded within franchise and functional risk reporting to BRC, following approval of the climate risk policy in December 2021. Risk management reporting is presented at each meeting and covers both top and emerging threats and principal risks. Climate considerations are captured across both dimensions. Discussion of climate risk during 2022 focused on regulatory submissions, evolution of the climate risk framework and its tools including climate data and analytics, and annual risk appetite recommendations.

Key climate-related matters discussed by BRC during 2022 in addition to the risk management reports include:

* March

Reviewed and recommended round two of the CBES results to Board for approval.

* October

Received climate risk spotlight highlighting progress during the year and regulatory feedback from CBES.

* December

Recommended the climate risk appetite statement and measures to Board for approval as part of the annual review of risk appetite.

Group Sustainable Banking Committee

The Group Sustainable Banking Committee (SBC) considered climate-related matters at all five of its scheduled meetings in 2022

The committee dedicated two meetings to overseeing progress towards our climate ambitions. In addition to the scheduled meeting focused on climate and broader environmental matters in April, the committee held an additional deep dive session on development of the initial iteration of our Climate transition plan in July. At this meeting the committee had a detailed discussion on methodologies and sector transition plans, including impact of climate-related risks and opportunities, as well as our policy influencing strategy given a dependency on clear and early government policy intervention.

The committee considered a purpose management information dashboard at every meeting which provided a snapshot of progress against key purpose metrics and targets. It also considered performance against climate-related executive targets and provided advice to the Group Performance and Remuneration Committee on the setting of future climate-related targets for remuneration purposes.

In April, the committee received an update on broader environmental policy and progress covering nature and biodiversity. In July, the committee's terms of reference were broadened to incorporate environmental (including biodiversity, forests and water) oversight.

Key climate-related matters discussed by SBC during 2022 in addition to the purpose dashboard include:

* April

Discussed Climate transition plan progress, including the approach, operating model and the systematic organisational challenge to integrate carbon reporting. Welcomed representatives from an external asset management firm to share their views on NatWest Group's climate and ESG progress and to help promote investor voices in the Boardroom.

* July (ad hoc)

Dedicated session to discuss the Climate transition plan progress including draft sector plans and policy influencing strategy ahead of Board update.

* December

Considered decarbonisation of the supply chain.

Group Audit Committee

The Group Audit Committee (GAC) considered climate-related matters at three of its five scheduled meetings during 2022

GAC has remained focused on ensuring robust and appropriate controls to support the preparation of the Climate-related Disclosures Report and related to the climate, purpose and ESG⁽¹⁾ measures. The controls align with existing measures already in place in relation to financial disclosures.

Key climate-related matters discussed by GAC during 2022 include:

* February

Discussion and recommendation of the 2021 Climate-related Disclosures Report to Board. The committee received assurances regarding the review and support for financed emissions disclosure from the business and Internal Audit.

* April

Discussion of draft standards released by the International Sustainability Standards Board (ISSB) and proposed rules changes by the Securities and Exchange Commission potentially requiring audit of such disclosures.

* December

Considered draft non-financial year-end disclosures, including the 2022 Climate-related Disclosures Report and the 2022 ESG Disclosures Report.

(1) Environmental, Social and Governance



Board oversight continued

Group Performance and Remuneration Committee

The Group Performance and Remuneration Committee (RemCo) considered climate-related matters at five of seven scheduled meetings during 2022.

RemCo's focus is on setting and assessing the climate-related goals attached to ED pay. See opposite for the 2022 climate measures and targets.

RemCo receives updates on how EDs are performing against their climate targets. The final assessment of performance against these targets is published in the Directors' Remuneration Report (DRR) in February.

Key climate-related matters discussed and approved by RemCo during 2022 include:

* January

Discussed the 2022 climate measures and targets being proposed for the EDs.

* February

Recommended the final ED bonus scorecard, including climate targets, to Board for approval, with disclosure made in the DRR that month.

* July

Approved the proposed bonus scorecard structure, including climate measures, for Executive Committee members.

* September

Discussed the H1 review of the Group CEO's performance, including tracking against climate-related measures and targets.

* December

Recommended the final performance assessment against the climate targets included in the ED bonus scorecard to Board for approval.

Performance and remuneration

Incentivising climate change progress

Since 2020, we have included a climate goal and related measures in our ED performance goals. Climate progress is an integral part of the annual bonus scorecard introduced under our new ED Remuneration Policy. For 2022, 10% of potential annual bonus was based on performance against the following climate ambitions:

1. Maintaining 40% reduction in carbon emissions from our direct operations against 2019 baseline;
2. Providing £17.5 billion of climate and sustainable funding and financing in 2022; and
3. Developing the first iteration of our Climate transition plan for publication with the 2022 Annual Results.

In 2021, it was also agreed that the measures used to determine the bonus pool for the wider workforce would include our climate ambitions. This ensures that the work of colleagues in supporting the transition to a low carbon economy is being reflected in pay decisions.

For further detail see our Directors' Remuneration Report on page 138 of the 2022 Annual Report and Accounts.

10%

of annual bonus for Executive Directors is based on performance against climate ambitions

Group Nominations & Governance Committee

The Group Nominations & Governance Committee (N&G) considered Board and Board Committee succession at all of its four scheduled meetings during 2022.

This included consideration of Board composition to ensure that overall balance of skills, knowledge, experience and diversity on the Board is maintained. In particular, N&G recommended the appointment of Roisin Donnelly to the Board in 2022. As part of this process N&G considered how

her background in customer experience, digital transformation, and experience of developing ESG strategies at board level would strengthen Board skills and diversity. N&G also recommended the appointment of Stuart Lewis to the Board and he will join the Board in April 2023.

N&G also considered the composition of Principal Subsidiary boards and approved a number of appointments having regard to the overall balance of skills, knowledge, experience and diversity on those boards.



2.3

Management responsibilities

The Group CEO and Group CRO are accountable for identifying and managing climate-related financial risks.
Management are supported by several forums to monitor, implement and deliver their responsibilities for climate change and its associated impact.

Climate accountabilities at executive and management level

Climate accountabilities for identifying and managing financial risks of climate change at management-level continue to be held jointly by the Group CEO and Group CRO. The executive-level committees and cross-bank working groups shown in section 2.1 assist in discharging their responsibilities and support collaboration across the organisation. The Group CEO and Group CRO oversee all executive reporting to the Board and its committees on climate-related matters.

The Group CEO's responsibility for strategic delivery is delegated to her executive team, notably the Group CFO, Group CIO, Group CPTO, Director, Strategy, Corporate Development and Sustainability and the business CEOs. Each has shared responsibility for strategic delivery relating to financial risks and opportunities that arise from climate change, ensuring NatWest Group identifies, measures, monitors, manages and reports on opportunities as well as exposure to risks.

The Group CRO is responsible for ensuring that the financial risks for climate change are reflected in risk management frameworks and – in line with our three lines of defence model – the Risk function provides effective, independent oversight of first line management activity. The Group CRO and his delegates are supported by the Climate Risk Oversight Forum, which serves as an important engagement and oversight mechanism.

One Bank approach to integrated business and functional governance

NatWest Group moved from a programme-led approach to climate change in 2021 to a framework embedded approach in 2022 within our existing accountability structure. Under our integrated governance structure, business areas are expected to ensure that climate considerations are built into day-to-day decision-making. See sections 3.6 and 4.3 for examples of business areas embedding climate in decision-making. The accountable executives are empowered to take decisions within their areas of accountability and responsibility, with clear escalation

and reporting routes in place to the Climate Change ESG. As our integrated governance model evolves, to support accountable executives, each business area has developed local governance forums to help them to support an adequate and integrated management response to our Climate transition plan, pursuit of strategic climate opportunities and the effective management of climate-related risks.

To drive a One Bank approach across all business areas, several cross-bank climate-related forums provide strategic insight and specific expertise, and have supported the development of the Climate transition plan. These forums are shown in section 2.1:

- **Climate Opportunities Group:** facilitates the performance and growth across our five key climate themes (Clean Energy, Clean Transport, Clean Buildings, Green Finance, Carbon-Tracking and Behaviours);
- **Measurement and Reporting Steering Group:** leads the coordination of NatWest Group's Climate transition plan. It drives improvements in climate-related MI, reporting, data and architecture development, along with related control frameworks and operating model.
- **Climate Risk Oversight Forum:** provides oversight of the implementation of risk frameworks and the effective management of climate-related risks.
- **Own Operations Executive Steering Group:** responsible for developing and embedding NatWest Group's Own Operations workstream and ensuring delivery of our climate purpose commitments and the 2025-2050 targets for our operational value chain.
- **Climate Data Steering Group:** responsible for overseeing the safe and secure delivery of the Climate Data outcomes and programme of work.

The Climate Centre of Excellence continues to support delivery of our climate ambition, complementing capabilities across NatWest Group by providing thought leadership, delivering engagement and exploring opportunities for collaboration.

During 2022, the Climate Change Executive Steering Group (CCESG) focused on the following themes:

1. Climate transition plan

CCESG is responsible for overseeing strategic progress against NatWest Group's climate ambitions and supports the Group CEO and CRO and their respective delegates in taking a strategic One Bank approach to our climate ambition. Key sector spotlights (focused on heightened climate-related risk sectors) have helped to challenge and validate the processes used to identify the most material levers supporting the transition. These include identifying existing and potential products and services to support customer transition. The CCESG received regular updates on the status of the NatWest Group Climate transition plan, recommending follow-up actions as appropriate.

2. Partnerships and opportunities

CCESG has encouraged further development of partnerships with the UK Government and NGOs as well as active industry participation to influence policy changes that will assist our customers to transition. CCESG also focuses on opportunities to support customer transition as part of its oversight of sector transition planning.

3. Supporting executive recommendations to the Board

Climate transition plan updates to Board and Board committees are overseen by CCESG prior to being presented to SBC and the Board. CCESG reviewed and recommended three updates to the Board in July, October and December 2022. CCESG also supported the Say on Climate resolution at this year's AGM.

4. Other areas of oversight

CCESG received periodic climate-related updates from across the business and functions, which enable CCESG to monitor climate-related risk management and provide challenges as appropriate. The updates include progress against our target to reduce our direct own operations emissions by 50% by 2025. Data has been discussed periodically at CCESG this year and has featured in risk updates. CCESG also has oversight of our target to provide an additional £100 billion in climate and sustainable funding and financing between 1 July 2021 and the end of 2025.

5. Financial Planning

In addition to reviewing actual 2022 expenditure on building climate change capability against budget, CCESG also supported the finalisation of the investment allocated to support our customers' transition in 2023-4. This includes centrally ring-fencing c.£60 million to support the development of climate-related opportunities and mitigation of climate-related risks during 2023. This is in addition to activity that is integrated into business-as-usual teams.

As the initial iteration of our Climate transition plan continues to be refined and our climate strategy evolves, our management governance model will adapt to support accountabilities.



2.4

Asset Management governance

Private Banking is the Investment Centre of Excellence for NatWest Group, servicing all client segments across Retail, Premier & Private Banking. It provides private banking and wealth management services through the Coutts & Co (“Coutts”) brand, as well as investment products and services to help our customers achieve their financial goals at every stage of their lives. See diagram opposite, which illustrates key oversight and decision-making forums supporting Asset Management climate governance.

The investment products, overseen by the Coutts Asset Management team are included within our ambition to be net zero by 2050.

Execution of investment strategy falls under individual accountability within Coutts, but strategic climate decisions for assets under management (AuM) are subject to both Private Banking and NatWest Group governance.

As the assessment and management of climate-related risk within investment products are complex, and at times differ from the broader NatWest Group, we have additional governance and oversight processes tailored to asset management.

Asset Management provides a range of globally diversified multi-asset funds and portfolios to Coutts, NatWest and RBS customers, including our Coutts Managed Funds and our Personal Portfolio Funds (PPF).

Coutts Board oversight

As a subsidiary of NatWest Bank plc, oversight of progress against climate ambitions in relation to Asset Management resides with Coutts' Board.

The Wealth Businesses Risk Committee oversees the management of risk across Coutts, including climate-related risks. The Wealth Businesses Climate Change Steering Group (WCCSG), a sub-committee of the Wealth Businesses Risk Committee, oversees the development and delivery of the climate strategy. Quarterly purpose updates are provided to the Coutts Board as well as focused ad hoc updates to discuss developments material to Coutts strategy, such as the development of the initial iteration

of NatWest Group's Climate transition plan. When appropriate, the Coutts Board also undertakes climate-related education on relevant topics such as Climate transition plan framework developments. In 2022, the Coutts Board took part in three climate-focused training sessions.

Management of AuM

Climate-related risks and opportunities within our Asset Management Business are managed by the Investment Committee and the Asset Management Risk Forum. Relevant output from these meetings is presented to the WCCSG before progressing to the Wealth Businesses Risk Committee.

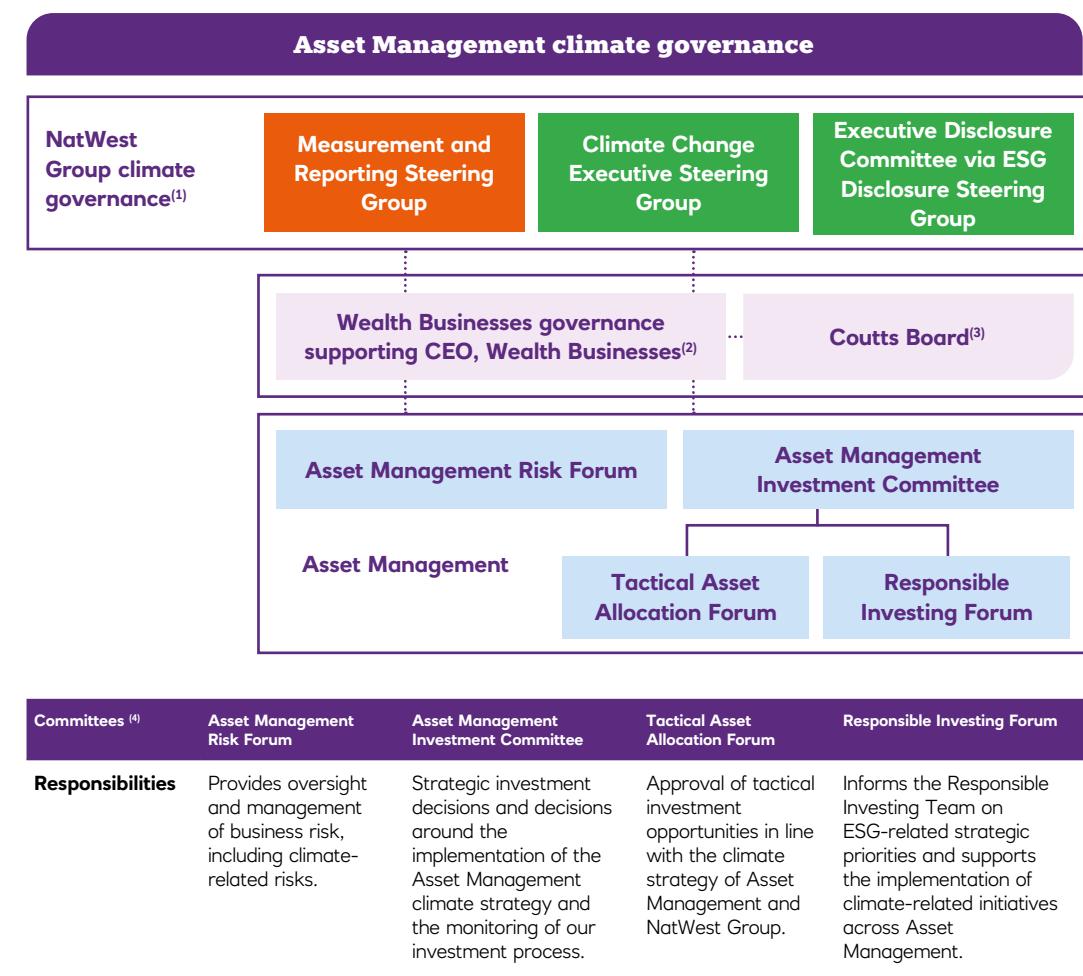
The Asset Management Investment Committee monitors and assesses risks and opportunities posed to our portfolios and funds, including those relating to climate change. As illustrated on the right, it is responsible for approving and reviewing the Asset Management Investment strategy and progress against our carbon reduction targets and net-zero ambition.

Our Responsible Investing Policy and Stewardship Policy, which are available on the [Coutts website](#), set out our approach to integrating ESG risk into our investment decision-making process.

Further information

Further details of our AuM strategy and targets can be found in section 3.2.

Details on our AuM Risk Management approach can be found in section 4.3.



(1) Relevant NatWest Group climate governance forums shown. See section 2.1 for further details. Matters are escalated to NatWest Group climate governance as appropriate.

(2) Includes Wealth Businesses ExCo, Wealth Businesses Risk Committee and Wealth Businesses Climate Change Steering Group, which provide oversight and make recommendations to accountable individuals.

(3) Coutts Board is a decision-making forum.

(4) In 2022, climate was discussed across all committees on a monthly basis.



3

Strategy and Climate transition plan

The actual and potential impacts of climate-related risks and opportunities on our businesses, strategy and financial planning, including the initial iteration of our Climate transition plan.

In this section

3.1 Our strategic approach

3.2 Climate transition plan:

- Supporting customer transition to net zero
- Getting our own house in order

3.3 Climate transition plan: Explaining our climate ambition and SBTi targets

3.4 Climate transition plan: Sector interdependencies and systems thinking

3.5 Climate transition plan engagement:

- Powerful partnerships and collaborations - Industry engagement
- Colleague engagement
- Government and policy engagement

3.6 Climate transition plan: Embedding climate into decision-making

3.7 Climate transition plan: Our own operations





3.1

Our strategic approach

NatWest Group and climate change

Climate change is a global challenge which has significant implications for our customers, investors, partners, suppliers and colleagues. Our ambition to be a leading bank in the UK helping to address the climate challenge recognises that NatWest Group may contribute both directly and indirectly to the climate challenge.

Our ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline, and align with the 2015 Paris Agreement, contributes to our net zero by 2050 ambition and reflects our purpose-led strategy.

As a primarily UK-focused bank, we have considered the majority of climate-related risks and opportunities influencing our strategy through a UK lens. Notable exceptions are included as part of this report, for example Asset Management.

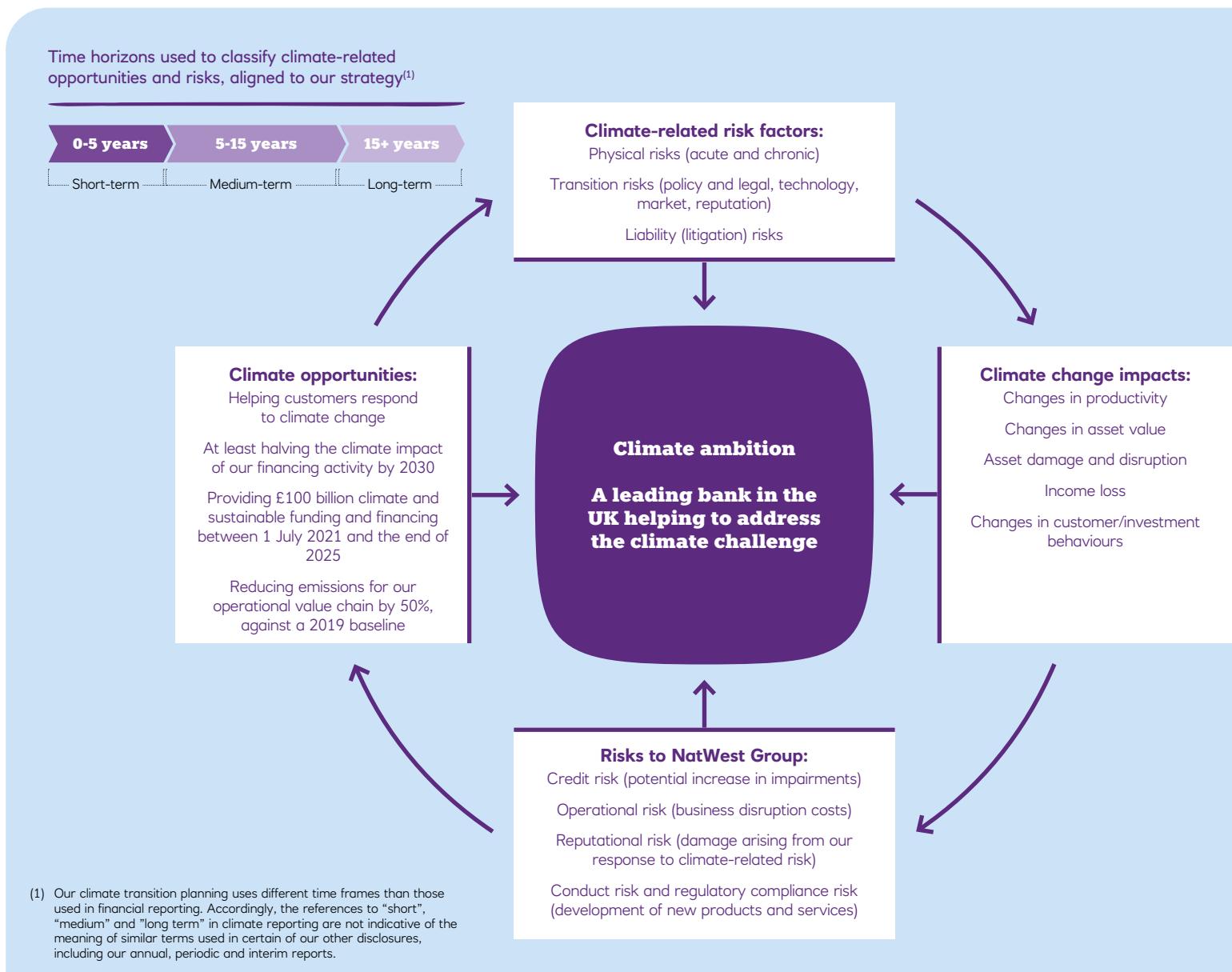
Risks: the physical and transition risks associated with climate change are transmitted through the economy to NatWest Group. This transmission happens in a number of ways, including, but not limited to, impacts on NatWest Group's key risks.

See section 4.2 for further details of identified and potential climate-related risks.

Opportunities: include finding ways to support our customers in their transition journey, whether through the provision of funding and financing or through products and services to support their transition such as Green Mortgages. Refer to see section 3.2.

Time horizons⁽¹⁾: In identifying our climate-related risks and opportunities, we assessed the time period when each is likely to occur. Risks and opportunities deemed material to our five-year financial planning cycle are viewed as short-term. Aligned with SBTi's guidance for financial institutions, long-term has been defined as beyond 15 years, while medium-term has therefore been defined as within the next 5-15 years. The initial iteration of our Climate transition plan encompasses both short-term and immediate medium-term horizons.

We included considerations of climate-related risks and opportunities in the initial iteration of our Climate transition plan, as highlighted in the pages that follow.





Climate-related opportunities

Climate-related opportunities identified as having a potentially significant impact on NatWest Group are outlined in the table below. The opportunities listed below were mainly identified as part of our purpose-led strategy announced in February 2020. Since this initial announcement we have continued to refine and prioritise these opportunities, including via the development of the initial iteration of our Climate transition plan, which has enhanced our understanding of the relative role each opportunity could play in supporting the achievement of our 2030 ambitions and our ambition to be net zero by 2050. Potential financial impacts have been included in line with

time periods covered on the previous page, noting the timing reflects the full impact of the opportunity being realised and the significant dependencies that NatWest Group is reliant upon to achieve its ambitions. Further detail on how we are exploring potential opportunities to support our customers' transition to net zero is available throughout section 3 of this report.

For details on identified climate-related risks and potential risks, see sections 4.2 and 4.2a

Opportunity	Related NatWest Group ambition	Expected time horizon	Potential financial impacts on NatWest Group	Section
 Supporting customer transition to net zero	We have a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. As part of this we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025.	Short	<ul style="list-style-type: none"> Increase in volume of climate and sustainable funding and financing, on and off-balance sheet. Increased balance sheet volumes through demand for new products and services that support customer transition. Reduced balance sheet volumes related to energy inefficient homes. Additional expenditure to develop new products and services. Decrease in emissions due to customer transition. 	<ul style="list-style-type: none"> 3.2 3.4 5.2 5.3
	We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our UK mortgage portfolio has an EPC rating of C or above by 2030.	Short – Medium		
 Helping to end the most harmful activities	We plan to phase-out of coal for UK and non-UK customers who have UK coal production, coal-fired generation and coal-related infrastructure by 1 October 2024, with a full global phase-out by 1 January 2030.	Short – Medium	<ul style="list-style-type: none"> Reduced exposure to coal customers. Reduced exposure to upstream oil and gas and reduced geographical footprint of upstream oil and gas financing. 	<ul style="list-style-type: none"> 3.2 3.4 5.1
	We will only support upstream oil and gas companies where the majority of 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 operated assets by the end of 2023. We stopped lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021.			
 Powerful partnerships and collaborations	We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.	Short – Medium – Long	<ul style="list-style-type: none"> Increased balance sheet volumes through demand for new products and services that support customer transition. Additional expenditure to develop new products and services. 	<ul style="list-style-type: none"> 3.2 3.4 3.5
 Getting our own house in order	We have a target to reduce emissions from our direct own operations by 50% by 2025, against a 2019 baseline.	Short	<ul style="list-style-type: none"> Increased expenditure to support reduction in carbon footprint in our own operations. Reduced expenditure related to energy, travel and water management. 	<ul style="list-style-type: none"> 3.7 5.4
	We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025, against a 2015 baseline.	Short		
	We plan to install electric vehicle charging infrastructure in 15% of large office spaces across our UK portfolio by 2025 and upgrade our fleet of c.100 vehicles to electric models by 2025 (EV100)	Short		
	We plan to reduce emissions for our operational value chain 50% by 2030, against a 2019 baseline.	Medium		



3.2

Climate transition plan: Supporting customer transition to net zero

Central to achieving sustainable growth is our ability to support our customers in their transition towards net zero. Throughout 2022, we continued to embrace innovation, harnessing technology to better support customers through carbon tracking solutions, giving individuals and business the insights needed to make informed decisions about their own transition.

We announced tailored support packages for customers, including a range of measures to help UK farming businesses manage unprecedented cost challenges affecting carbon-intensive inputs (e.g. fuel, feed and fertiliser costs). Colleagues in Retail Banking took part in climate-focused huddles across our branch network in September, with the aim of embedding climate considerations in our day-to-day conversations with customers. We also gave customers access to climate and sustainability-focused educational resources, such as our [Climate Change Hub](#), containing energy efficiency tips, as well as thought leadership publications such as [Climate Matters](#), which examined the importance of climate finance and public-private partnerships in delivering the transition to net zero.

Potential Opportunity	Customer segment	Progress in 2022	Impact in 2022
Product propositions	Personal	Building on our existing Retail Banking Green Mortgage products, which incentivise customers purchasing, porting or re-mortgaging a property with an EPC rating of A or B, in December 2022 we launched our Home Energy Plan portal. Publicly available and free to use, it provides users with advice on how to make a residential property more energy efficient and provides customised suggestions to help a home reach its full energy performance potential.	£2.2 billion Retail Banking Green Mortgages completed in 2022. This represented 5.3% of total Retail Banking mortgage completions during the year.
	Private	Building on existing Coutts mortgage products that offer discounted arrangement fees for purchasing a more energy efficient home (EPC rating of A or B) or for making improvements to improve energy efficiency (EPC rating C and above) Coutts launched a pilot for its Greener Homes Service. Providing bespoke advice to help participating customers overcome the barriers to retrofitting, the service includes a free energy performance assessment, details of retrofit costs and benefits, and the option to implement recommended measures through a pre-vetted supply chain.	30 customers are participating in the initial pilot of the Greener Homes Service, with further enhancement planned. In 2022, Coutts completed £241 million in mortgages for properties rated EPC A or B.
	Commercial & Institutional	<p>During 2022 we provided £5.3 billion in Sustainability Linked Loans (SLLs) that met our climate and sustainable funding and finance inclusion (CSFFI) criteria. SLLs offer customers a financial benefit when material and predetermined sustainability performance targets have been met.</p> <p>Green and Sustainability public bonds, including Sustainability Linked Bonds (SLBs), as well as Green and Sustainability private placements, continued to make up a sizeable portion of our climate and sustainable funding and financing progress in 2022, contributing £10.7 billion.</p>	Total Commercial & Institutional SLL lending of £5.3 billion included. £1.3 billion from NatWest Markets and £1.0 billion from RBS International. RBS International won the Real Deals ESG Lender 2022 award, recognising positive impact delivered through ESG transactions across private equity.
Carbon tracking tools and functionality	Personal	We released a number of enhancements to our carbon tracking tool for personal customers, developed in collaboration with Cogo, to allow customers to see a rolling monthly view of their carbon footprint and commit to quantifiable actions which give them personalised carbon savings.	As at 31 December 2022 more than 330,000 visitors had accessed carbon tracking features on our mobile banking app.
	Commercial & Institutional	<p>Launched the NatWest Group Carbon Planner in Q3 2022, a free-to-use digital platform designed to help UK businesses identify potential cost and carbon savings.</p> <p>Following a successful pilot with SME customers from the manufacturing and automotive sectors in February 2022, we extended our Cogo carbon tracking collaboration to support SME customers in May 2022. Insights from that pilot were used to enhance SME support available through our Carbon Planner solution.</p>	Carbon Planner surfaces personalised recommendations from more than 40 actions, which UK businesses can take to reduce their carbon footprint and potentially operating costs. Actions range from improving insulation and packaging return programmes to electric vehicle adoption and generating energy from waste.
Delivering sustainable asset finance	Commercial Mid-market	Lombard continued to help accelerate the decarbonisation of transport by providing asset finance to support customer investment in low and zero emission green transport assets, including via the Lombard Vehicle Solutions offering. Asset finance products can support customers accelerate their transition by investing in cleaner assets, while also enabling them to preserve valuable cash reserves and working capital facilities.	In 2022, Lombard provided £1.1 billion funding for green transport assets (EVs and hybrid), to support transport decarbonisation.
Tailored start-up support	Business Banking	The NatWest Accelerator programme, our network of 14 UK hubs, provides growing enterprises with access to tailored business coaching through a dedicated Acceleration Manager, as well as co-working space and events. Those whose main product/service is based on sustainability, circular economy or supporting a net-zero transition are classified as climate-led.	In 2022, we supported 502 climate and purpose-led businesses, across two cohorts, with six-month-long business accelerator support.



Climate transition plan: Supporting customer transition to net zero continued

We continue to facilitate access to the necessary finance, advice and expertise needed to support customers with their own transition towards net zero and help to reduce emissions in the real economy. Our target to provide an additional £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025 supports our ambition to at least halve the climate impact of our financing activity by 2030.

Potential Opportunity	Customer segment	Progress in 2022	Impact in 2022
Environment, Social and Governance (ESG) product growth and innovation	Capital Markets	NatWest Markets maintained its position as a leading bookrunner for green, social, sustainability and sustainability-linked (GSS/S) bonds in our chosen geographies and markets, providing expert advice on the execution of Climate and ESG capital markets issuance.	In 2022, NatWest Markets lead managed or placed 52 green bonds and private placements totalling a notional amount of £41.6 billion, accounting for 20% of the total lead managed or placed transactions by NatWest Markets during the period.
		NatWest Markets continued to grow its Climate and ESG Capital Markets business. The business continued to innovate, structure and originate ESG product solutions to help our customers meet their transition and broader sustainability goals. These included the development of bespoke advisory services and content to help customers navigate ESG expectations from rating agencies, regulators and other stakeholders. Mid-sized corporate engagement was strengthened through greater focus on their ESG assets that can be brought to the private placement market, while we also developed a deeper understanding of the emerging ESG needs of public sector customers, in particular in the UK and Europe.	Instruments included: three ESG-linked repos (with total commitment of £27.6 million) and two ESG-linked FX transactions. We also continued to act as dealers for six ESG-labelled commercial paper programmes, and helped set up one new programme in this asset class in 2022, as well as a notional amount of £295 million in ESG deposits, as part of the NatWest Markets Short Term ESG Product Framework (as at 31 December 2022).
		In June NatWest Markets won the Most Impressive Investment Bank for Corporate Green and ESG-Linked Bonds in the 2022 GlobalCapital Bond Awards. This award recognises those helping customers apply ESG considerations to their treasury and financial products.	In total, NatWest Markets won four industry awards in 2022, recognising innovation in ESG across both transaction and advisory activities.
Greater transparency across Assets under Management (AuM)	Asset Management	In May 2022, we announced our interim strategy to achieve net zero emissions across our AuM. This included defining the percentage of our AuM we consider in-scope for net-zero alignment, as well as a short- and a medium-term ambition to increase the percentage of in-scope AuM we consider to be on a net-zero trajectory: 50% aligned to a net-zero trajectory by 2025, increasing to 70% by 2030. ⁽¹⁾	89% of AuM are considered in-scope to be managed in line with net zero. This includes all core managed funds and discretionary portfolios, which includes our Personal Portfolio Funds (PPF), Coutts Managed Fund (CMAF) range and our discretionary (non-bespoke) portfolios.
		All customers invested in our core managed funds and discretionary portfolios now have a minimum amount of their wealth invested in funds that are on a net-zero trajectory. For customers invested through Coutts Invest, NatWest Invest and Royal Bank Invest this is at least 50% of the assets by value in our PPF range. For customers invested in our CMAF range and discretionary portfolios this is at least 20%.	As at 31 December 2022 £6.5 billion of total AuM is invested in funds that are on a net-zero trajectory and are decarbonising at an average rate of 7% per annum ⁽²⁾ .
Using our shareholder voice	Asset Management	Throughout 2022, we helped to influence change towards the creation of long-term value for our customers through our voting and engagement activity with the companies held within our in-scope AuM.	In 2022, we voted on 12,013 resolutions and engaged with more than 267 companies on ESG topics. Approximately 25% of engagements focused on climate-related topics such as net-zero targets and disclosures.

(1) For more information about our interim targets, please see pages 38 to 39 of the [Net Zero Asset Managers Initiative's Initial Target Disclosure Report](#) (May 2022). Also refer to Cautionary Note on Climate Data, section 5.7.

(2) Decarbonisation is based on carbon intensity, which is measured as tons of Scope 1 and Scope 2 carbon emissions per US\$1 million of sales.



Climate transition plan: Getting our own house in order

We have made significant progress in turning our climate ambition into action since setting out our climate strategy in 2020. As we support our customer transition we are also working towards getting our own house in order, whether reducing our direct own operational emissions and broader activity, equipping colleagues with the skills and knowledge needed to help address the climate challenge or reflecting our purpose in how we influence change

and promote a more sustainable real economy. From broad strategic initiatives to highly focused, practical solutions designed to support a more circular economy, we continue to review and challenge the way we work.

For further detail on our target to reduce emissions from our direct own operations by 50% by 2025, against a 2019 baseline, refer to section 5.4.

Potential Opportunity	Progress in 2022	Impact in 2022
Harnessing our purpose to maximise impact	<p>In 2022, NatWest Group asked shareholders to support our strategic direction on climate change through a Say on Climate resolution at our Annual General Meeting.</p> <p>Coutts published its first B Corp Impact Report in July 2022, one year after receiving B Corp certification.</p>	<p>92.58% of votes cast were in favour of the Say on Climate resolution, indicating strong shareholder support for our climate strategy and reporting plans.</p> <p>The report details how Coutts has used its B Corp accreditation to have a positive impact on society and the environment since July 2021.</p>
NatWest Group Green, Social and Sustainable (GSS) bond issuance	<p>Our Green, Social and Sustainability Financing Framework (the 'GSS Framework'), has been in place since November 2019, with updates in 2020 and 2022. The framework incorporates a wide range of eligible loans to support specified use of proceeds bonds likely to have a positive environmental and/or social impact.</p> <p>To date, we have issued three green bonds totalling approximately £2 billion equivalent under our GSS Framework supporting our ambition to finance more renewable energy projects and provide mortgage funding for energy efficient homes.</p>	<p>Green and social issuance represented approximately 24% of NatWest Group's senior unsecured funding in 2022, demonstrating ongoing contribution to the growth of GSS bonds and diversification of our investor base. Refer to the NatWest Group plc 2021 Green, Social and Sustainability Bonds Allocation and Impact Report for further details.</p>
Our own resource use – (for further detail refer to section 5.4)	<p>Throughout 2022, NatWest Group continued to roll out debit and credit cards manufactured using recycled PVC (rPVC). Each card represents a 36% reduction in CO₂ emissions over traditional plastic cards. Initially launched in 2021 through Retail Banking, our Commercial & Institutional business began to roll out rPVC replacement debit cards from February 2022, with Commercial & Institutional credit cards from November 2022.</p> <p>In Q2 2022 we launched our new sustainable colleague uniforms across our branch network, featuring garments made from recycled materials. We also replaced our plastic name badges with a more sustainable option made from bamboo.</p> <p>We teamed up with Reborn to deliver our first Reverse Vending Machines in 2022. The machines are capable of recycling plastic cards (payment and non-payment), offering a secure way for consumers to begin recycling the estimated 65 million unused plastic cards still in circulation, as well as card readers and plastic bottles. Following a successful trial with two machines at our London and Edinburgh offices, four additional machines were installed for public use in early 2023, located near London's busiest transport hubs and largest hospitals.</p>	<p>As at 31 December 2022, over 15.8 million replacement rPVC cards had been issued to our retail and corporate customers, representing 95.4% of all cards issued by NatWest Group.</p> <p>In 2022, we issued more than 142,000 uniform garments using recycled materials and issued nearly 19,000 bamboo name badges, with each badge saving 5g of plastic.</p> <p>Our 2022 pilot recycled more than 28,000 cards received via return mail, with material re-purposed into more than 3,000 hats and pairs of socks. More than 400 of these garments were donated to our charity partner Social Bite in December, to support homeless and vulnerable communities.</p>
Colleague support towards EV adoption	<p>In February 2022 NatWest launched a tool to support colleagues in making an informed decision around their ability to switch to an electric vehicle. The EV8 Switch app uses real driving information to provide colleagues with insights around their suitability to switch to an EV, along with details of potential CO₂ and cost savings of doing so.</p>	<p>As at 31 December 2022, 1,149 colleagues had created EV8 Switch accounts.</p>
Bespoke training for Capital Markets	<p>In November 2022, NatWest Markets colleagues received training on greenwashing risk, covering recent UK regulatory developments, and provided an overview of mis-selling, litigation risk, reputational risk, impacts and mitigants.</p>	<p>Training was delivered to over 850 NatWest Markets colleagues via a webinar.</p>

(1) Votes cast with regard to such resolution (whether for or against) as a percentage of NatWest Group's total voting rights was 85.96%.



3.3

Climate transition plan: Explaining our climate ambition and SBTi targets

Our ambition to be net zero by 2050 across our finance emissions, assets under management and operational value chain is supported by our 2030 ambitions noted in the table below. Aligned with our ambition to set sector-specific targets, during 2022 we published 2030 targets validated by the SBTi as science-based. These targets included our own operational emissions as well as 79% of our 2019 lending book. SBTi targets have been set based on a number of methodologies, external scenarios, pathways and assumptions that vary by sector.

Please refer to sections 5.4 and 5.5 for details of these. We have dependencies on timely and appropriate government policies and other external factors such as customer behaviour changes and technology developments. Refer to section 3.4 for details of key policies. The table below explains our carbon emission reduction ambitions and validated science-based SBTi targets:

NatWest Group ambition: Net zero by 2050

2030 ambitions

Financed emissions	Temperature alignment target: Lending and investment	Assets under Management	Our Own Operations
Sectoral decarbonisation targets: Lending Science-based SBTi validated sectoral decarbonisation targets cover: <ul style="list-style-type: none">Electricity generation, residential mortgages, commercial real estate, land transport, automotive manufacturing, cement, aluminium and iron and steel.These sectors comprised 59% of the lending book at 31 December 2019.See section 5.5 for SBTi targets for in scope sectors.	Temperature alignment target: Lending and investment Science-based SBTi validated temperature rating targets covers: <ul style="list-style-type: none">Oil and gas (Scope 1, 2 and 3), and other sectors including aviation, shipping and agriculture.These sectors comprised 20% of the lending book at 31 December 2019. In addition, Listed equity, Corporate bonds and Private equity portfolio comprising 57% of the investment book, excluding sovereign debt securities, were included in the temperature alignment target.SBTi target: Align scope 1, 2 and 3 portfolio temperature score, by loan or invested value, from 3.2 °C in 2019 to 2.3°C in 2030.	NatWest Group ambitions: <ul style="list-style-type: none">Portfolio alignment to net zero: align 50% of in-scope AuM to a net-zero trajectory by 2025.Portfolio alignment to net zero: align 70% of in-scope AuM to a net-zero trajectory by 2030.Carbon intensity: Reduce the carbon intensity of our equity and corporate fixed income holdings by 50% by 2030, compared to a 2019 baseline.	Own operational value chain SBTi targets: <ul style="list-style-type: none">Scope 1 and 2: A reduction in absolute Scope 1 and 2 greenhouse gas emissions by 50% by 2030 from a 2019 base year.Increase annual sourcing of renewable electricity from 69% in 2019 to 100% by 2025.Scope 3 category 1-14: A reduction in absolute Scope 3 GHG emissions from categories 1-14 by 50% by 2030 from a 2019 base year.
Methodology			
SBTi targets methodology: <ul style="list-style-type: none">Where methodologies exist, we have used SBTi's Sectoral Decarbonisation Approach (SDA) to set targets for our lending book.Targets reflect the reduction in the physical emissions intensity for each sector aligned with an external pathway. We have used the Committee for Climate Change BNZ Pathways as well as International Energy Agency's Beyond 2°C World Scenario (B2DS) pathway aligned with SBTi guidance to estimate these targets.See sections 5.5 and 5.7 for details of scenarios used, methodologies and limitations.			
SBTi targets methodology: <ul style="list-style-type: none">We have used the SBTi Temperature Rating Methodology to assess temperature rating targets. Where available, we used GHG emissions reduction targets disclosed by customers through CDP to calculate temperature scores for each customer. Customers who did not have externally disclosed targets through CDP were assigned a default score of 3.2°C.Customer temperature scores were aggregated to calculate a NatWest Group temperature rating by using the weighted average temperature score (WATS) methodology, which weights customer targets based on their proportion in a portfolio.See section 5.5 and 5.7 for details of scenarios used, methodologies and limitations for lending and page 45 for further detail on Financial Institutions.			
Portfolio alignment methodology: <ul style="list-style-type: none">Portfolio alignment targets measure the percentage of fund managers setting and achieving net-zero targets.The assessment combines qualitative and quantitative measures of the credibility of funds' and companies' net-zero strategy and targets. We consider forward-looking targets as well as progress against targets, which forms the basis of net zero engagement with fundsBy selecting funds that demonstrate progress against credible net-zero strategies and targets we are more likely to gain exposure to underlying companies that are decarbonising.			
Carbon intensity methodology: <ul style="list-style-type: none">See section 1.3 and page 45 for further details.			



Climate transition plan: Approach

The initial iteration of our Climate transition plan focuses on the delivery of our 2030 decarbonisation ambitions. This will form the basis for further work on our journey to net zero by 2050 across our financed emissions, AuM and our operational value chain. We have used available guidance, including GFANZ, Transition Planning Taskforce and TCFD recommendations, to inform the development of our transition plan.

During 2022, we focused on developing transition plans at a sector level, aligned with our work on estimation of carbon emissions and emissions intensities. This activity prioritised sectors with high emissions and emission intensities, balance sheet materiality as well as those sectors for which we have set validated science-based targets. Overall, we have set transition plans for 72% of our lending book as at December 2019. To develop transition plans for financing activity, we considered the following:

Business operations, products and services

- Supporting our customers' transition is a key driver in the development and delivery of our transition plans. We have worked with the business teams within each sector to identify products, services and business operation changes that can be made available to support customer transition.
- Where possible, we have performed this analysis at a subsector level to ensure actions most relevant to customers within these segments are identified and recorded within the transition plan.

Financial planning

- We have started to align the initial iteration of our Climate transition plan with our financial plan. This helps ensure that climate strategy and its execution are built into the financial plan, including regular monitoring and review.
- We will continue to develop this alignment during 2023 as part of the evolution of our Climate transition plan.

Sensitivity analysis including dependence on government policies

- NatWest Group's initial climate transition plan has been developed with reference to the UK's statutory commitment to reducing greenhouse gas emissions to net zero target by 2050.
- NatWest Group and our customers are dependent on the UK Government to deliver credible, consistent and secure policies capable of delivering the UK's 2050 net zero target. The [UK CCC's 2022 Progress Report](#) highlights the UK's own commitment to deliver a 78% reduction in emissions by 2035, based on 1990 levels.
- To assess climate impacts of policies within the initial iteration of our transition plans, we have used the UK CCC Beyond Net Zero (BNZ) scenario, aligned with the UK's sixth carbon budget, as a starting point. In addition, we have used the credibility ratings for sectoral policies provided by the UK CCC 2022 Progress Report to the Parliament (UK CCC 2022 Progress Report) to develop a BNZ adjusted pathway to reflect estimated time delays based on credibility ratings as follows
 - Credible Policies:** estimated 0 years of delayed adjustment to the BNZ pathway for the associated policy e.g. policies for zero emissions vehicles mandate and renewable electricity supply.
 - Policies with some or significant risk:** estimated 3 and 5 years of delay respectively for the associated policy
 - Policies with insufficient plans:** estimated 10 years of delay for the associated policy.
- In cases where the UK CCC 2022 Progress Report has provided commentary on policies without providing a credibility rating, we have not adjusted the BNZ pathway for our analysis.

Sections 3, 5.4 and 5.5 include details of the initial iteration of our Climate transition plan. While we have developed these plans on a sector basis, these are presented aggregated as systems to demonstrate the inter-linkages between sectors. Refer to section 3.4 for further details of our systems thinking approach. Refer to section 5.5 for further details on sector level estimates of financed absolute emissions and emissions intensities including progress made against pathways for each sector.

Relevant limitations associated with the initial iteration of our Climate transition plan and associated metrics are included in sections 5.4, 5.5, 5.7 and the "Risk Factors" included within the NatWest Group plc Annual Report and Accounts. Transition-related Risks are outlined in section 4.2 of this report.

The initial iteration of our Climate transition plan has confirmed that further action is required by NatWest Group and its customers to meet our ambition and decarbonisation plans. It is also clear that support from timely and appropriate government policies will be required to create incentives for transition and customer behaviour changes. This is aligned with the Mission Zero: Independent Review of Net Zero Report published by Rt Hon Chris Skidmore MP in January 2023:

'Evidence provided to the review has shown that the Net Zero Strategy and other recent government publications have not provided adequate certainty to business and investors. Clearer plans, focused on individual sectors, set out over the long-term, and communicated clearly to the public, are important to ensure buy-in and providing a stable investment environment.'

Mission Zero: Independent Review of Net Zero Report, January 2023

The initial iteration of our Climate transition plan has been informed by the Transition Planning Taskforce (TPT) summary recommendations. The table below provides an index to relevant climate transition plan content included within this report:

Element	Section
1. Foundation including approach and linkage to strategy	1.1, 1.2, 1.4, 3.1 3.3, 3.4, 3.7, 4.1, 5.4, 5.5.
2. Implementation strategy including financial planning, products, services and business models and external dependencies	2.3, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 4.1, 4.2, 4.2a, 4.3, 5.4, 5.5
3. Engagement strategy including Industry and government, and colleagues	3.2, 3.4, 3.5, 3.7,
4. Metrics and Targets including GHG emissions metrics and targets, financial and business metrics	1.2, 1.3, 1.4, 3.3, 3.4, 3.7, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7
5. Governance including Board oversight, roles and responsibilities, incentives and remuneration, and training	2.1, 2.2, 2.3, 2.4, 3.5, 4.3



Climate transition plan: Outcome

Aligned with our purpose-led strategy and through our work on the initial iteration of our Climate transition plan, we have developed a consolidated view of the current products and services suite offered to customers, across the sectors analysed, and their potential forward-looking impact on our estimated financed emissions. We have also worked on identifying future opportunities and business model changes that are likely to be required to further support the transition, some of which were recently announced in February 2023, including:

- Partnering with Places or People, British Gas Centrica and Schneider Electric** – coordinated by Pineapple Sustainable Partnerships – to work together on a pilot project to show that retrofitting homes at scale can be an achievable and affordable goal.
- Our aim to **provide at least £10 billion in lending for EPC A and B rated residential properties** between 1 January 2023 and the end of 2025 as part of our existing target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025.
- 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 31 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.

The transition to net zero provides us with opportunities to go further in supporting our customers. The Mission Zero: Independent Review of Net Zero Report, published in January 2023, details various opportunities available to the UK to support the transition.

As a purpose-led organisation, we aim to continue to work with our customers and partners to develop products, services and partnerships to support the transition to net zero for us, our customers and the UK.

However, we and our customers have **a dependency on timely and appropriate government policies to provide the necessary impetus for technology development and customer behaviour changes to enable the UK's successful transition to net zero**. We have used the UK CCC's sixth carbon budget to assess the impacts of, and the extent of the dependency on, government policies within the initial iteration of our climate transition plan. The UK CCC's Progress in reducing emissions: 2022 Report to Parliament noted significant risks and currently insufficient plans in the Buildings and, Agriculture and Land Use, sectors and some risks for other key sectors. We have factored these risks into our transition plan and plan to continue our proactive work on policy engagement with government. Refer to Page 49 for our approach to UK Government policy engagement. These policy risks, if not adequately addressed in a timely manner, put at risk the UK's net zero transition and in turn that of our customers and ultimately our own.

The table below includes the following for each sector analysed within the initial iteration of the climate transition plan as at 31 December 2021 (i) estimated absolute emissions (ii) estimated physical emissions intensities (iii) Estimated physical emissions intensity based on convergence points aligned to external scenarios and (iv) comparison of expected and latest estimated physical emissions intensities.

Refer to section 3.4, 3.5, 5.5 and 5.7 for further details.

2021							
System	Sector	Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity ⁽¹⁾	Convergence point	Difference % ⁽²⁾	RAG
Property	Residential mortgages	3.1	–	37.8 kgCO ₂ e/m ²	35 kgCO ₂ e/m ²	7%	
	Commercial real estate	0.3	–	56.6 kgCO ₂ e/m ²	53.6 kgCO ₂ e/m ²	5%	
	Construction	0.6	–	43.4 tCO ₂ e/£m	37.3 tCO ₂ e/£m	14%	
Mobility	Automotive manufacturing		0.5	250.0 gCO ₂ e/v-km	243 gCO ₂ e/v-km	3%	
	Land transport and logistics						
	Of which freight road	0.1	0.2	45.9 gCO ₂ e/t-km	35.5 gCO ₂ e/t-km	23%	
	Of which passenger rail	0.2	0.1	59.4 gCO ₂ e/p-km	46.8 gCO ₂ e/p-km	21%	
Energy	Of which passenger road	0.2	0.2	86.9 gCO ₂ e/p-km	61.2 gCO ₂ e/p-km	29%	
	Electricity generation	0.5	–	116.7 kgCO ₂ e/MWh	174 kgCO ₂ e/MWh	(49)%	
	Oil and gas	0.9	0.2	2.4 tCO ₂ e/TJ	2.4 tCO ₂ e/TJ	–	
Food	Agriculture						
	Of which Primary farming	3.9	–	2,111 tCO ₂ e/£m	2,101 tCO ₂ e/£m	0.47%	

2021 NatWest Group estimate – RAG status

Under or equal to the convergence pathway

Above convergence pathway by up to 5%

Above convergence pathway by more than 5%

(1) Refer to page 89 for further detail on physical emissions intensity metrics used to estimate reduction required by 2030.

(2) Reflects the percentage difference between 2021 physical emissions intensity estimate and the 2021 convergence point.



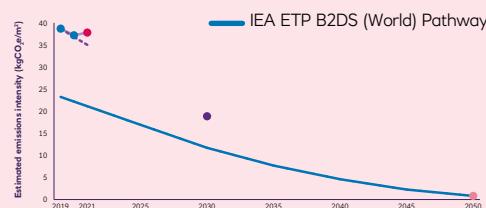
Climate transition plan: Outcome continued

Our ambition to be net zero by 2050 is aligned with the 1.5°C temperature stabilisation objective of the 2015 Paris Agreement. The charts below present the pathways aligned to externally recognised scenarios, developed by independent and respected organisations, that form the basis of our sector targets validated by the SBTi as science-based. Refer to section 5.5 and 5.7 for details on scenarios used, methodologies and limitations. Also included is the progress made against these pathways between 2019 and 2021.



Property

Residential mortgages

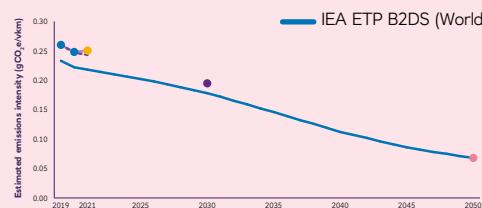


See page 82 further details



Mobility

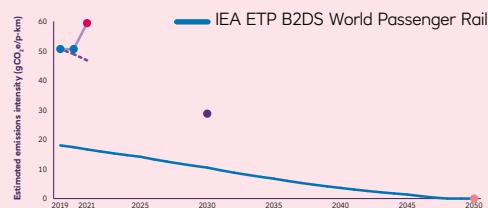
Automotive manufacturing



See page 83 for further details



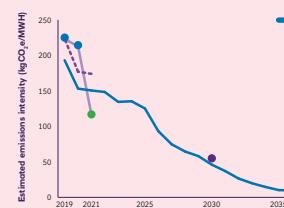
Land transport – Passenger rail



See page 84 for further details

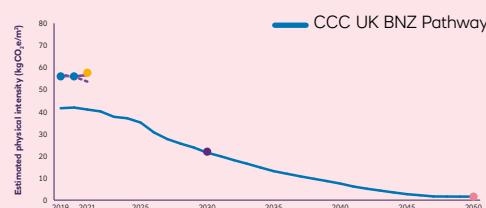


Energy



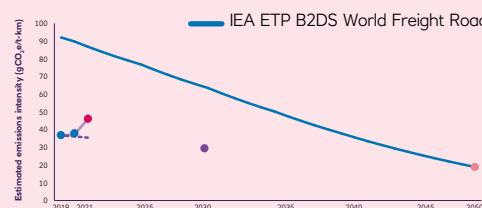
See page 85 for further details

Commercial real estate



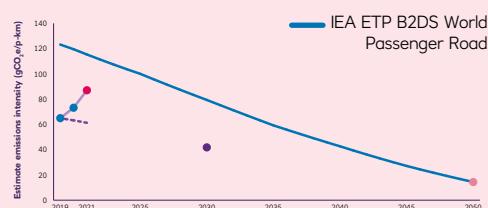
See page 82 for further details

Land transport – Freight road



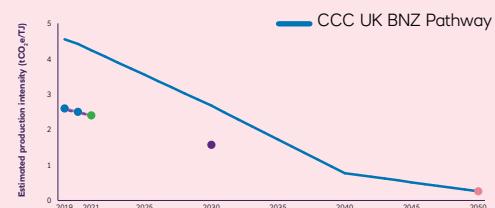
See page 84 for further details

Land transport – Passenger road



See page 84 for further details

Oil and gas

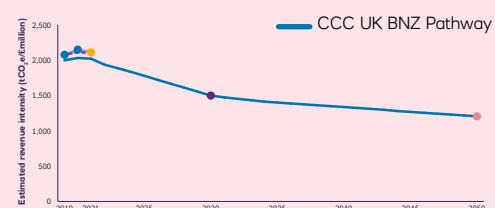


See page 86 for further details



Food

Agriculture – Primary farming



See page 87 for further details

Key

- 2030 SBTi validated target
- 2019 - 2020 NatWest Group estimates
- 2050 convergence point

Convergence pathway

2021 NatWest Group estimate - RAG status

- | | | |
|---|---------------------------------------|---|
| Under or equal to the convergence pathway | Above convergence pathway by up to 5% | Above convergence pathway by more than 5% |
|---|---------------------------------------|---|



Climate transition plan: Linkage with our financial plan

An important part of our work in developing the initial iteration of our Climate transition plan was to link the transition plan with our financial plans.

We used sector level financial forecasts, incorporated within our financial plan, to estimate forward-looking absolute emissions and emissions intensity impacts to 2030. Where differences in operations within a sector can result in a different emissions profile, we have used subsector level financial forecasts e.g. within the land transport sector, forecasts for road, rail and passenger transport were separately assessed.

A Finance working group was set up with representatives from financial planning, climate and business finance teams to ensure linkage between the initial iteration of our Climate transition plan and the financial plan. Climate metrics and initial Climate transition plan outcomes were also incorporated in the financial planning governance and approval process.

We will continue to enhance the linkage between our Climate transition plan and the financial plan during 2023.

As outlined in the **Mission Zero, Independent Review of Net Zero Report by Rt Hon Chris Skidmore MP**, published in January 2023, "Net Zero is the growth opportunity of the 21st century and "the UK must act decisively to seek the economic opportunities and smooth the transition". The report also outlines how net zero will drive widespread changes to the global economy including how we heat our homes, generate electricity, travel and produce food. Aligned with this, and our ambition to be a leading bank in the UK to help address the climate challenge, work to develop the initial iteration of our climate transition plan included an assessment of products, services and business model changes to support our customers' and the UK's transition.

'Net zero is the growth opportunity of the 21st century.'

Mission Zero, Independent Review of Net Zero Report by Rt Hon Chris Skidmore MP, published in January 2023

We have focused the initial iteration of our Climate transition plan on developing plans to support the transition of our customers in key sectors linked to property, energy, mobility and food systems as these have most impact on the UK's carbon footprint and our customers' day to day lives. Aligned with our business strategy, and in support of the transition of the UK to net zero, our business plans involve increasing our lending to customers, which includes seeking opportunities to support their transition to net zero.

Given the scale of investment and the timescale required to transition, we expect to see an increasing proportion of that lending to support customers' investments in green and transition technologies and operations. This increased lending in certain sectors is expected to result in an increase in our absolute Scope 3 emissions in the near- to medium-term. However, as more customers transition, reductions in emissions intensities are expected to accelerate as the roll-off of high carbon intensity business balances out the growth in new low carbon intensity lending, gradually resulting in decarbonisation of the balance sheet. As an example, new funding of EPC A and B mortgages increases our lending and hence absolute emissions. However, as EPC A and B mortgages have lower emissions per square metre than EPC C and below mortgages, this reduces the overall emissions intensity for the mortgage portfolio. As properties are increasingly retrofitted to improve their energy efficiency, the improvement in the current stock of mortgage lending is expected to balance out additional emissions from new lending. The timing and pace of this change are uncertain, non-linear and intrinsically linked to broader UK public policy, advances in technology and customer behaviours.

Our ambition for our financing activities to be net zero by 2050 is aligned with the UK's own ambition to reach net zero greenhouse emissions by 2050.

However, the transition is not expected to be linear and in the near-term, we will focus on identifying opportunities to support customers in their transition and in turn reduce the emissions intensity of our financing activity. During this time we plan to focus our transition plan execution on our SBTi sector-based targets to help guide and drive emissions intensity reductions while continuing to report and monitor our financed emissions in both absolute and emissions intensity terms.

We will continue to update and evolve our transition plan aligned with 2030 and 2050 climate ambitions, noting our ability to meet our ambition will be dependent on progress against the UK's broader commitment with necessary changes in policy, advances in technology and customer behaviour.

Assessing the resilience of the initial iteration of our transition plan

- To assess the resilience of the initial iteration of our Climate transition plan, we have applied scenario analysis to the components of the transition plan: financial plan (including climate-specific actions identified), as well as UK Government policies. Over 2022, we have developed capability, through our Transition Risk Calculator, to allow us to integrate a consistent view on the climate transition policy in our base economic scenario for our financial plan aligned with the transition planning analysis. Refer to section 3.4 for scenario analysis applied in relation to government policies.
- During 2022, we continued to develop scenario analysis capability, which will allow the inclusion of climate transition risk factors within the core macroeconomic scenarios used for budgeting, planning and risk assessment purposes.
- To support this, we developed the Transition Risk Calculator, an internal approach to modelling the impact of transition risk factors on key macroeconomic variables at a sector level. Applying this approach as at 31 December 2022 it results in a potential increase in Expected Credit Losses (ECLs) of less than £25 million. Going forward, the Transition Risk Calculator will allow us to test the resilience of the financial plan, used to develop the transition plan, to transition risk.
- While initial focus of the work has been on transition risk, we will also continue to enhance our analysis and methodologies for physical risk.
- The methodology allows the understanding of varying climate impacts in different sectors. The calculator has been designed specifically for short-term macroeconomic scenarios used for planning and stress testing purposes.

For further details of scenario analysis see section 4.2a.



Transition Risk Calculator

The following variables are considered within the Transition Risk Calculator methodology:

- **Emissions intensity (direct and through supply chain):** the higher the emissions intensity the larger the carbon cost impact on that sector
- **Cost of abatement:** sector-specific current and projected marginal abatement cost curves to estimate cost effective abatement across different sectors
- **Ability to pass through cost increases to consumers:** elasticity of demand and potential to pass through costs determines how sensitive output prices are to cost increases as a result of climate policy
- **Recycling of government carbon tax revenues:** in some scenarios government might collect significant carbon tax revenues, which can be used to stimulate demand in selected sectors
- **Demand destruction/demand creation:** direct projections of demand for different types of high and low carbon goods and services related to the particular policy scenario; for example could be taken from the Network of Central Banks and Supervisors for Greening the Financial System scenarios.



3.4

Climate transition plan: Sector interdependencies and systems thinking

Extensive analysis during 2022 has focused on the identification of opportunities to support customers' transition within each sector analysed. This work has highlighted the importance of understanding sectoral interdependencies and that there needs to be a set of coordinated actions between sectors to achieve economy-wide decarbonisation. As an example, supply chain capabilities within the construction sector can influence the speed of retrofitting within the commercial real estate sector and residential mortgages, and hence their decarbonisation.

To support this and continue the evolution of our initial transition plan in 2023, we plan to adopt a systems thinking approach to identify the key points of leverage to enable systems-wide transformation and decarbonisation. A systems thinking approach considers how carbon flows between sectors in the economy, and factors that determine the magnitude of those carbon flows. These factors can include:

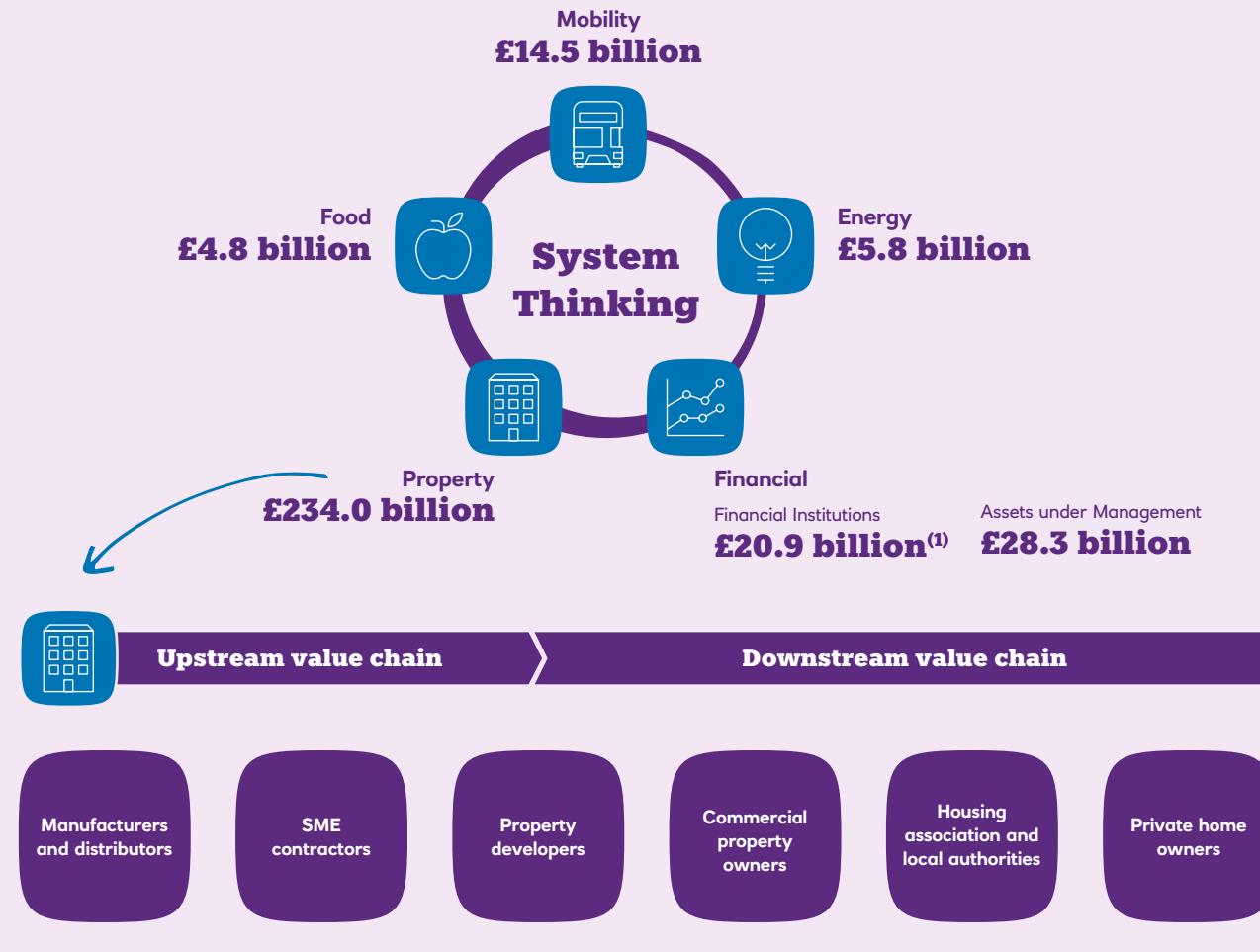
- Government policy
- Carbon intensity of materials, technologies and infrastructure
- Configurations of existing value chains
- Consumer preferences and behaviours

Understanding these factors for each system will support the identification of opportunities to impact the size and direction of carbon flows in sectors within a system. This work has informed our focus on growth areas to amplify our 2023 strategy, such as supporting our customers' sustainability transitions.

Considerations regarding systems thinking:

- **Impact of energy systems decarbonisation:** We recognise that the decarbonisation of certain sectors can have a large impact on decarbonisation within other sectors, the most prominent being energy. The decarbonisation of energy supply and energy demand (particularly in mobility and buildings) will play a prominent role in decarbonisation across other sectors. In addition, the manufacturing sector, through the manufacture of products and components that will support transition to electrification, will also aid decarbonisation in other sectors.
- **Transition may not be linear:** As additional funds are invested in supporting transition across sectors and systems, there may be increased emissions in the short-term before average emissions intensities reduce causing a reduction in absolute emissions in the medium to long-term.
- **Opportunities within one sector may be dependent on another sector within a system:** Within the property system, there is a dependency on greener building materials, efficient building practices and adequate supply chain to support the decarbonisation of mortgages and commercial real estate.

The diagram below represents sectors and portfolios included within the initial iteration of our Climate transition plan aggregated and presented as systems. Amounts included are gross lending amounts for sectors analysed and the Assets under Management portfolio (within the Finance system) as at 31 December 2022.





Climate transition plan: Property system

The property system comprises the full life cycle of a property from its design, construction, operation to decommissioning. Transition plan work during 2022 has primarily focused on the residential mortgages portfolio, and the commercial real estate, housing associations and construction sectors. NatWest Group lending exposure to these sectors was £234.0 billion at 31 December 2022 (£225.2 billion at 31 December 2021).

System Context: As per the UK CCC 2022 Progress Report, around 20% of the UK's emissions come from buildings, making them the second largest source of emissions in the UK after surface transport, with about 77% of UK building emissions in 2021 relating to residential properties, followed by commercial real estate (about 13%) and public sector buildings (about 10%).

As one of the largest lenders in the UK, we have a key role to play in supporting consumers and businesses in transitioning to more energy efficient homes and buildings that are warmer, cheaper to heat, and generate lower emissions. Decarbonising properties will require retrofitting existing buildings to increase their energy efficiency, constructing new energy efficient buildings and decarbonisation of electricity and heating supply. There is therefore a dependency on other sectors e.g. building materials construction, manufacture of low carbon appliances and technologies as well as the energy system, for decarbonisation of the property system. At 31 December 2021, estimated absolute financed emissions for these sectors (excluding housing associations) are 4.0 MtCO₂e with estimated emissions intensities of 37.8kgCO₂e/m² for mortgages and 56.6kgCO₂e/m² for CRE. Scope 2 emissions related to purchased electricity comprise c.25% of estimated absolute emissions. As a result, decarbonisation in these sectors has a dependency on decarbonisation of the electricity grid.

Key products and services to support decarbonisation:

Residential mortgages:

Our strategy within this sector comprises four pillars that we will continue to develop to support customer transition:

- **Customer engagement:** Providing educational information, building credibility and understanding with customers to support them in making their homes more sustainable.
- **Product choices:** Rewarding and incentivising customers to purchase and refinance the most energy efficient homes and upgrade the energy efficiency of their current homes.
- **Sector engagement:** Engaging with wider stakeholders within the sector to help influence change.
- **Manage risk and data:** Maintaining and developing the appropriate controls to manage the climate-related risk of our portfolio.

Aligned with this, we have:

- **Launched a suite of green mortgage products** including purchase, re-mortgage (an industry first) and Buy-to-Let (BTL) products. During 2022 Retail Banking provided £2.2 billion in Green Mortgages⁽¹⁾. NatWest Group provided £4.2 billion funding towards EPC A and B residential mortgages during 2022, with £5.2 billion cumulative contribution towards our climate and sustainable funding and financing target. As part of this, and to further support decarbonisation, we aim to provide at least £10 billion in lending for EPC A and B rated residential properties between 1 January 2023 and the end of 2025. Emissions intensity for EPC A and B mortgages at 13.8kgCO₂e/m² is lower than emissions intensity on our full mortgage portfolio.
- Working with **Sustainable Homes and Buildings Coalition partners** (NatWest Group, British Gas, Worcester Bosch, Shelter and Citizens Advice) to understand key customer and market barriers to retrofitting, and using this information to influence government policy change. In 2022, the Sustainable Homes Coalition published its Progress Report that followed nine customers in their retrofit journey, surfacing key limitations faced by customers in undertaking retrofits, e.g. ill-equipped supply chain, opaque funding options, etc.

(1) Green mortgages are available to all intermediaries for all residential and Buy-to-Let properties with an energy performance rating of A or B and specific new build developer properties. Available for Purchase, Porting and Re-mortgage applications.

- **Green Homes Attitudes Tracker:** a quarterly survey with NatWest Group and IHS Markit that tracks customer sentiment towards energy efficiency and environmental concerns over time. The increase in energy prices means that over 65% of homeowners plan to make energy efficiency improvements to their property this decade, though financing the upfront costs for retrofits is the single largest barrier for most owners.
- **Smart Home Thermostat pilot:** to understand customer behaviour and emissions reduction potential.
- **Financial health checks and EPC updates:** Customers can access their EPC data alongside other mortgage information on our portal to drive awareness and action. We have also included energy efficiency related questions in our Financial Health Checks with customers, bringing the conversation to the frontline.
- **Retrofit Portal:** During 2023, we will work to deliver an online portal to provide an end-to-end solution for homeowners to find accredited builders that can carry out retrofits, have access to necessary technologies and materials for the chosen retrofit, and appropriate financing solutions. Refer to Case Study: Making our homes more sustainable on page 35 for an example of products and services for residential mortgages in practice.

Commercial real estate:

- **Lending to support transition:** this includes Sustainability Linked Loans as well as retrofit loans to finance improvements in properties that will make them more energy efficient.
- **Risk appetite for development of new build homes** has been restricted to only finance EPC A and B homes since 2020, supporting the development of most energy efficient housing stock.

Housing associations:

- **Green and transition lending:** The demand to accelerate the UK's transition to net zero comes as a cost-of-living crisis deepens, with the energy efficiency of homes being a topical issue. Retrofitting properties to reduce energy bills has become a key focus, particularly for the most deprived areas of society. We have made good progress in supporting the sector on its climate journey so far, and financing retrofit and new development at EPC A or B continue to be our key levers. During 2022, we have provided £0.6 billion funding to the housing association sector through Sustainability Linked Loans, which included Environmental KPIs linked to improving the energy efficiency of the housing stock.
- In February 2023, we have announced that we will collectively work with **Pineapple Sustainable Partnerships, Places for People, British Gas Centrica and Schneider Electric** on a pilot to retrofit thousands of homes in the social housing sector.

Construction:

The construction sector plays a key role in building low carbon and climate resilient transport and renewable infrastructure, as well as constructing net zero buildings. The UK CCC estimates that £50 billion per annum of capital expenditure is required for the manufacturing and construction, buildings and network infrastructure sectors for the UK to meet its net zero targets. This illustrates the commercial opportunity to support this sector to decarbonise, and the benefit of 'saving carbon' in other sectors by supporting green activity. We will continue to provide green asset finance to support our customers' switch to low carbon materials and technologies. In February 2022 NatWest Group joined CO2nstruct Zero as a partner, which brings together organisations that are demonstrating leadership in relation to carbon reduction and recognises the global role of construction in meeting the net-zero challenge. To help cultivate a more mature retrofit supply chain, we are also exploring how we can work with the Supply Chain Sustainability School to share knowledge and build the skills needed to retrofit homes and buildings across the UK.

We will continue to evolve our products and services offering to support our customers and in turn the UK's property sector decarbonisation.



Climate transition plan: Property system continued

NatWest Group and our customers have a dependency on timely and appropriate government policies to support transition.

Noted below are policies that are expected to the support decarbonisation of UK homes and buildings.

The UK CCC 2022 Progress Report has assessed the UK Government's 2021 Heat and Buildings Strategy and noted that plans are not yet fully comprehensive or complete and “**significant risk**” remains for many policy areas covered by the Strategy, with about 18% of the expected abatement in the UK Government pathway to 2035 being unaccounted for by policy. Noted below are the key policies including related abatement potential and the UK CCC's assessment in 2022:

- **Low carbon heat in homes and heat networks** could deliver 39% and 7% of the UK's 2035 abatement, respectively.
 - While government proposed market-based mechanism for low-carbon heat could reduce the need for public funding and drive down the unit costs for heating systems, it is complex and carries “**significant risk**”. Policy measures to stimulate demand are clearer but do not necessarily go far enough e.g. boiler phase-out dates, tighter standards for new buildings and limited government funding through the Boiler Upgrade Scheme.
 - While the £288 million of capital grant funding through the Green Heat Networks Fund (GHNF) will help establish an early market till 2025, no funding is currently committed after 2025. New projects funded through GHNF will need to use low-carbon sources but there are no clear policies to require the decarbonisation of existing heat networks or that prohibit the creation of new high-carbon networks which do not draw on public funds.
- **Increasing energy efficiency in non fuel-poor homes and domestic product standards and appliance efficiency** are each expected to deliver 7% of the UK's 2035 abatement in buildings. However, the most significant policy gap in the buildings sector is energy efficiency, with only the private rented sector covered in the UK through a consultation on increasing the minimum standard for rental properties to EPC C by 2028. In his Autumn statement, The UK Chancellor announced an ambition to reduce energy consumption by 15% by 2030. This is supported by the UK Government's annual investment in measures to promote energy efficiency with £6 billion in the current year, to double to more than £12bn from 2025 to 2028. The UK Government has implemented a robust framework for product standards, which should contribute to emissions reductions over time.
- **The UK Government timeline for increasing energy performance for fuel-poor homes:** meant to provide 5% of 2035 abatement, is rated as being “**credible**” for funding over the next few years, but has not set out when it will implement policies to improve the targeting of support to fuel-poor homes.
- **New buildings:** From 2025 the Future Homes Standard will require new homes to meet high standards of fabric efficiency and use low-carbon heat sources. It is expected to deliver 6% of 2035 abatement for residential buildings, 8% for commercial and 10% for public buildings. This has “**significant risk**” until 2024, and “**some risk**” from 2025. The UK CCC is not confident that the interim building standards uplift will drive sufficient change in the new build sector prior to 2025, as standards can be met without low-carbon heat, adding to the stock of boilers which will need to be retrofitted in coming years. The Government's Net Zero Estate Playbook, published late in 2022, is expected to provide greater funding and requirements to decarbonise public buildings.
- **In the construction sector,** the UK Government has released its Construction Playbook guidance, with clear climate-related procurement requirements for government contracts in buildings and infrastructure, which include life cycle assessments and zero waste strategies from winning contracts.

Other external dependencies to support transition:

- **Immature supply chain to do retrofits:** there is currently a lack of skilled workforce to do retrofit assessments and execute appropriate retrofits for different homes meaning that accredited and trusted builders and installers are hard to find. In addition, a lack of scale in an immature manufacturing supply chain for fabrication materials and technologies for retrofit results in costly materials and constrained supply. Natwest Group is exploring how we can work with the Supply Chain Sustainability School to share the knowledge and build the skills needed to retrofit homes across the UK.

- **Landlord/tenant relationship:** within the CRE sector, depending on the scale of the retrofit, landlords may need to relocate or remove tenants. While this would improve the energy efficiency of the property, it may impact the credit risk profile of the landlord (NatWest Group customer) due to loss of rent.
- **Customer journey:** while commercial customers are well progressed in their decarbonisation journey due to regulation; residential mortgage customers are in early stages of their transition journey. Further customer education and engagement, as well as government policies, will support incentivising customer behaviour change. To support this, NatWest Group is creating a one-stop portal where customers will be able to work out what they need to improve the energy efficiency of their home, find the finance and source a supplier.
- **Technology development and scaling:** Heat pumps are considered to be more energy efficient than oil and gas boilers. However, installing heat pumps often involves high cost and future scalability to align with future increase in demand.
- **Housing associations:** While the social housing is considered to be ahead of the private sector when it comes to average EPC ratings, it still has a large number of properties that need to be improved. In England, there are approximately 4.1 million social homes and 1.6 million of these are below EPC C. The housing associations sector is highly regulated and while there is currently no legal requirement for the sector to deliver net zero, it is expected that the majority of housing associations will reach EPC C by 2030 and net zero by 2050. In February 2021, NatWest Group issued a €1 billion affordable housing social bond, the first of its kind by a UK bank. We selected a pool of loans to not-for-profit UK-based housing associations to which we will allocate funds. These housing associations undertake social rent, affordable rent, supported housing and shared property schemes. In total, they own around 150,000 houses/flats. More broadly, NatWest Group has supported the work on the enhancement of the Sustainability Reporting Standard for Social Housing. This framework is designed to enable housing providers to report on their ESG performance in a transparent, consistent and comparable manner.
- **Innovation in construction processes:** there is potential to reduce onsite construction times through innovative methods including modular construction methods as well as equipment that can reduce diesel consumption of plant and machinery and saving of raw materials. However, where low carbon options are available, the cost of this technology is currently multiple times more than conventional diesel. With tight margins and inflationary pressures, this has the potential to slow down business investment in green assets. In addition, alternative materials used in the construction process must be capable of being supplied at scale while ensuring essential safety standards are met. Promising materials include compressed laminate timber and zero carbon cement.





Climate transition plan: Case study

Making our homes more sustainable

Supporting the transition of UK housing



Energy efficient glazing was key to the retrofit

A modern condensing gas boiler was installed.

The refurbishment included the use of energy efficient lighting.



We're working with our partners to raise awareness of what the transition to net zero means for homeowners and tenants.

With an ageing housing stock, improving the energy efficiency of homes in the UK could bring a range of environmental and social benefits – from reducing carbon emissions to savings on heating bills – as well as better outcomes for our health and wellbeing.

In 2021, we launched the Sustainable Homes and Buildings Coalition with partners British Gas, Worcester Bosch and Shelter to improve the energy efficiency of UK buildings. Together, we're working to raise awareness of what the transition to net zero means for homeowners and tenants by providing practical advice and support to make homes more sustainable.

As part of NatWest Group's response, we established the Greener Homes Attitude Tracker, a quarterly survey supported by S&P Global. The tracker shows that while support for energy efficiency adoption is growing, cost can be a significant barrier to many green home improvements.

This was the experience of Coutts client Kay Hallinan, who, despite adopting sustainable practices in her day-to-day life, had initially been put off by the high costs associated with many green home improvements.

In 2020, Kay purchased an investment property for renovation. After installing double glazing, replacing the boiler and switching to energy efficient lighting, the EPC rating for the property increased from F to C – securing a discounted arrangement fee on Kay's Coutts retrofit mortgage.

Our residential and buy-to-let mortgage suite now includes several options that incentivise customers purchasing an energy efficient home or renovating an existing property to improve its energy performance with lower interest rates and discounts. Since they were launched in Q4 2020, Retail Banking has completed £2.9 billion of Green Mortgages⁽¹⁾.

'Although we were working towards an energy efficient home for our tenants, we were not thinking about the EPC rating when we were renovating the property,' says Kay. 'However, after receiving cashback on our arrangement fee, I was able to consider where we could easily increase the EPC rating in other properties.'

With our Sustainable Homes and Building Coalition partners, we also launched the Green Homes Retrofit Pilot, in collaboration with Quidos, which aims to support a sample of customers seeking to improve the energy efficiency of their homes and reduce energy bills. At the end of 2022 nine customers were informing this pilot, with works ranging from new double glazing to improved insulation, solar panels, new radiators and heat pumps. Insights from the trial will be used to innovate and develop our future product range.

Through collaborative initiatives, as well as innovative features such as our Home Energy Plan – which shows customers up-to-date information on the EPC rating of their property and suggests helpful tips on green home improvements – we can help more people make their homes energy efficient.

(1) Green Mortgages are available to all intermediaries for all residential and Buy-to-Let properties with an energy performance rating of A or B and specific new build developer properties. Available for Purchase, Porting and Re-mortgage applications.



Climate transition plan: Mobility system

This system is diverse and comprises a range of sectors: land transport (passenger road, rail and freight) and logistics, aviation, shipping and automotive.
NatWest Group lending exposure to these sectors was £14.5 billion at 31 December 2022 (£13.4 billion at 31 December 2021).

System context: As per the UK CCC 2022 Progress Report the various modes of travel are the largest source of emissions in the UK, with land transport contributing 23% and aviation and shipping contributing 3% each. Emissions for sectors within this system primarily relate to downstream emissions from use of modes of transport.

The mobility system can decarbonise through a reduction of demand in travel or a shift in transport modes e.g. from private car to public transport, supported by improved energy efficiency and the decarbonisation of energy. These are reliant on:

- Regional and urban policies with regards to infrastructure choices that affect options on how people can move within and between cities/regions e.g. cycling vs driving
- Environmental policies that regulate air quality and climate including carbon pricing of fossil fuels
- Industrial policy to make low-carbon modes of travel more cost-competitive and investment into supply chains to enable alternative forms of energy for transport.

Key products and services to support decarbonisation:

- **Financing of lower carbon vehicles:** Our climate and sustainable funding and financing inclusion criteria includes financing of electric cars and e-buses. During 2022, additional financing of £1.3 billion was provided for sustainable transport solutions, primarily through Lombard. Further opportunities are being assessed, aligned with government policy development, to finance green buses and coaches.
- **Internal policies:** Policy restrictions are in place to restrict lending to older and highest carbon emitting cars and buses. Further work is being carried out to assess linking vehicle emissions thresholds to lending decisions.
- **Sector transaction acceptance standards (TAS):** includes qualitative considerations to assess climate-related risks and potential financial impacts, with a view to support environmentally and socially responsible customers and identifying further opportunities to support customer transition.
- **Aviation:** NatWest Group exposures within the aviation sector primarily relate to secured asset financing against new-generation aircraft supporting commercial airlines to reduce their CO₂ per seat mile. We will continue to finance the most carbon efficient customers and assets based on criteria set within our TAS.

Key external dependencies to support transition:

Technology and infrastructure development:

- **Increase in electric vehicles will require adequate electric charging infrastructure.** Per the Electric Vehicle Smart Charging Action Plan for affordable, sustainable power for electric vehicles published by the Department for Business, Energy and Industrial Strategy in January 2023, households without off-street parking e.g. in flats or rental properties have limited options for accessing smart charging. In addition, consumers are concerned about whether the vehicle will be ready when they need it.
- **New aircraft have lower emissions than older aircraft.** However, due to supply chain issues, there is a delay in the manufacture of new aircraft. Potential aviation emissions reduction is reliant on technology innovation delivering more efficient fleets. Sustainable Aviation Fuel technology is in nascent stages of development.
- **Behaviour changes:** customers switching to lower emitting modes of transport will contribute to emissions reductions. This includes walking, cycling or public transport instead of driving. The up-take of electric vehicles instead of petrol and diesel, is evidence of consumer demand for more sustainable transport.





Climate transition plan: Mobility system continued

NatWest Group and our customers have a dependency on timely and appropriate government policies to support transition. Noted below are policies that are expected to support decarbonisation of the mobility system.

As per the UK CCC 2022 Progress Report, overall policies targeted at land transport have “**some risk**” but are the most advanced in comparison to aviation and shipping in achieving the Government’s Net Zero Strategy. For land transport, the publication of the Transport Decarbonisation Plan (TDP) in 2021, along with the Charging Infrastructure Strategy, and consultation on the details of the Zero Emissions Vehicle mandate, represented a positive step for the sector, setting out the Government’s vision for how the sector’s emissions can be abated. Policies that reduce reliance on fossil fuels are considered most significant for the aviation and shipping sectors. However, policies aimed at decarbonising aviation and shipping are at “**significant risk**” of failing to deliver 2035 abatement targets.

Land transport:

- **Reduction of vehicle use and encouraging shifts to public, shared or active modes of transport:** 9% of the UK’s 2035 abatement is expected through this change in behaviours, with the UK CCC 2022 Progress Report rating policies as having “**some or significant risk**” with regards to shifting individual car use to public transport or to more active travel. This is particularly true for UK cities other than London, where achieving the same level of integrated public transport requires further support. An overall approach is lacking and there is some risk to policies aimed at shifting consumers towards more active travel, with the aim that half of urban journeys will be walked or cycled by 2030. Key enabling policies such as the Planning System, Active Travel England and the Roads Investment Scheme need to better reflect these ambitions, providing guidance to local authorities on taking a place-based approach to decarbonisation.
- **Zero emission vehicles:** overall the policies to shift towards achieving the Zero Emission Vehicle (ZEV) mandate are considered largely “**credible**” by the UK CCC, delivering almost 78% of the abatement for land transport by 2035 as part of the Net Zero Strategy. The ZEV promotes vehicles that have no emissions at the tailpipe, with clear phase-out targets for cars and vans by 2030. These still seem to be on track, with promising growth in sales of ZEV for cars, despite sales of zero emissions vans and heavy goods vehicles lagging. The main concern is to ensure that charging infrastructure, as set out in the Infrastructure Strategy, meets user demand and expectation and supports the uptake needed. While the Infrastructure Strategy is clearer for cars, the use case for zero emissions vans and heavy goods vehicles is less clear.
- **Conventional vehicle efficiency:** expected to deliver 10% of 2035 abatement for surface transport, but is considered to be at “**significant risk**” of failing to achieve such a reduction. Policy is directed to internal combustion engines and hybrid vehicles with an operational lifetime between now and 2030. The UK CCC suggests that getting UK Government policy to incentivise the improvement of efficiency of these vehicles now will ensure a lower footprint through the operational life of the vehicle.
- **Rail efficiency and technology:** is expected to provide 1% of 2035 abatement, with “**some risk**” to achievement. The UK Government intends to remove diesel-only trains from the network by 2040, with the system being net zero by 2050. The TDP sets out Network Rail’s Traction Decarbonisation Network Strategy as a blueprint for how this will be achieved – but now a more comprehensive delivery plan is needed.

Aviation:

The UK Government’s JetZero strategy, to deliver net zero aviation by 2050, focuses on improving system efficiency and increasing the availability and use of sustainable aviation fuel (SAF) in the near-term, while new technology is developed. The JetZero strategy acknowledges that aviation is a key industry in making the UK one of the best connected and successful trading nations. The strategy does not plan to intervene to limit sector growth but focuses on improving efficiency, decoupling CO₂ emissions growth from air traffic growth. This policy is heavily dependent on new technology, particularly related to SAF development.

The most significant policies relate to the development of SAF, expected to deliver 64% of 2035 abatement, with improved fuel efficiency of aircraft expected to deliver 34% of 2035 abatement. For SAF, there is consultation to mandate 10% SAF by 2030, which is a high-level ambition, with over £180 million committed in UK funding to develop SAF plants. There needs to be clarity on the type of SAF to be included to ensure lifecycle emissions of SAF provide emissions savings and avoids opportunity costs of growing fuels. With regard to fuel efficiency, there is “**significant risk**” to meet the emission reduction requirement for the Department for Transport’s scenarios, requiring significant R&D and high-level international cooperation.

Shipping:

The most significant policies relate to enabling low-carbon fuels for shipping, which would deliver 85% of 2035 abatement, however, there is a “**significant risk**” of failing to deliver. The upcoming Course to Zero strategy and refreshed Clean Maritime Plan need more detail on roles and responsibilities in order to drive investment in decarbonising UK shipping. Globally, there is a need to include a net zero 2050 target within the International Maritime Organisation initial GHG strategy, to ensure vessel operators are incentivised to transition to low carbon fuels. Positive steps would be to include shipping in the UK ETS. Other important policies centre on improving the efficiency of vessels and the electrification of shipping, which could deliver 15% of 2035 abatement, with “**some risk**” to delivery.





Climate transition plan: Case study

Funding the drive to clean transport



NatWest Group has set out a clear ambition to be a leading bank in the UK helping to address the climate challenge. A key part of this is providing financing structures for businesses that are developing sustainable energy.

One such business is electric vehicle fleet and battery storage specialist Zenobē. Established in 2017, Zenobē currently works with the majority of major bus operators in the UK, as well as local authority-owned bus companies, to electrify their fleets and minimise the lifetime costs of their electric vehicles (EV) and charging infrastructure. The company also provides battery storage solutions to grid operators, accelerating the uptake of renewables.

By 2025, Zenobē aims to have a fleet of at least 3,000 EV buses and 1GW of battery storage.

To support this ambition, the company has established a funding platform with an initial volume of £241 million, which will enable it to service and

finance up to 430 new e-buses in the UK and Republic of Ireland.

Having worked with NatWest Group on an innovative financing facility in 2021, Zenobē turned to our team again to advise on a multi-source debt structure to help accelerate the expansion of the EV fleet sector.

Our One Bank team, comprising colleagues from Private Placements, Specialist Asset Financing, Risk Solutions, ESG Advisory and Climate & ESG Capital Markets, collectively delivered a bespoke funding package. This incorporated green loans and private placements that adhered to the Loan Market Association's Green Loan Principles attracting institutional investors and bank lenders.

We believe this financing will have a real-world impact for accelerating the UK's drive to electrify its public road transport system.

Combined with Zenobē's technical expertise, the financing enables the company to offer end-to-end services to the bus operators including the design, installation, financing and operation of electrical charging infrastructure and buses in the depot.



We believe this financing will have a real-world impact for accelerating the UK's drive to electrify its public road transport system.

This is a clear example of our purpose in action: building relationships with businesses such as Zenobē, championing its potential and empowering it to deliver on its sustainability ambitions.



Watch the story online

The QR code above directs to a case study video on our 2022 Annual Report webpage. None of the information on that webpage (including the case study video) is, or should be read as being, incorporated by reference into this report.



Climate transition plan: Energy system

The energy system impacts every other system as it provides the fuel potential to undertake economic activities in other systems, which may in turn generate further emissions. To develop the initial iteration of our Climate transition plan, we have focused on sectors that provide energy used by other systems.

NatWest Group lending to these sectors was £5.8 billion as at 31 December 2022 (£5.7 billion as at 31 December 2021).

System context:

In preparing the initial iteration of our Climate transition plan, we have analysed the oil and gas and electricity generation sectors. Absolute estimated emissions for these sectors was 1.6 MtCO₂e as at 31 December 2021, with physical emissions intensities of 2.4 tCO₂e/TJ for oil and gas and 116.7 kgCO₂e/MWh for electricity generation.

The UK CCC 2022 Progress Report estimates that emissions associated with the extraction, refining and distribution of fuel supply was 8% of the UK's emissions in 2020, with 98% of these emissions associated with the oil and gas industry, and 2% from coal mines. The report also estimates that emissions from electricity supply accounted for 11% of UK emissions in 2021.

Key products and services to support decarbonisation:

Oil and gas

- Credible transition plan assessment:** During 2021, we concluded credible transition plan (CTP) assessments for oil and gas majors and in-scope coal customers. This supported our stated ambition to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a CTP in line with the 2015 Paris Agreement in place by the end of 2021. Refer to the following page and section 5.1 for the latest position. As a result of actions in this sector, lending to the oil and gas sector represents 0.7% of total lending exposure at 31 December 2022.
- Green and transition finance:** We will continue to support the transition to renewable energy and other technologies to reduce emissions in this sector as part of our climate and sustainable funding and financing.
- Internal policies:** We have continued to strengthen our ESE policies within the power generation and oil and gas sectors including the recent announcement to not provide reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers from February 2023. Refer to page 41 for further details on ESE policies for the power generation and oil and gas sectors
- Specialist team to focus on energy transition:** During 2022, we set up a specialist team to focus on energy transition, given the role energy is expected to play in the decarbonisation of other systems. This new team will work on identifying opportunities to support transition, including large scale energy infrastructure, and also supporting growth businesses that will be important to transition over the next decade. Some examples include new technologies like hydrogen supply, storage and distribution, carbon capture, utilisation and storage (CCUS) as well as supporting the wider alternative waste treatment technologies sector and clean transport infrastructure. The initial focus of the team has been to understand existing challenges and potential opportunities, coordinating internally to bring One Bank thinking to support financing the energy transition. Regional virtual teams have been created to focus on identifying specific opportunities to support customers looking to grow in this crucial sector.

Electricity generation

- Financing renewable energy projects:** NatWest Group has been a leading lender to the UK power and renewables sector over the last 10 years. Renewable energy has lower emissions than energy produced from oil and gas. During 2022, we provided £1.3 billion of climate and sustainable funding and financing to solar and wind projects.
- Lending criteria:** NatWest Group ESE policy suite includes policies related to power generation and mining and metals. Refer to page 41 for further details.





Climate transition plan: Energy system continued

The current energy crisis provides a clear incentive to shift away from fossil fuels to avoid exposure to geopolitical price shocks.

External dependencies to support transition:

The UK CCC 2022 Progress Report states that electricity generation needs to be fully decarbonised by 2035 to achieve its balanced net zero pathway and has rated policies intended to achieve the UK's 2035 target for this sector as being “**credible**”. In comparison, the UK CCC 2022 Progress Report has provided an overall rating for policies aimed at reducing emissions from fuel supply as having “**some risk**”. In addition, The UK CCC 2022 Progress Report also states that:

- The government and the oil and gas industry can increase its current ambition of a 50% reduction in emissions for the sector by 2030 against 2018 levels to 68%.
- Policy support to increase production from North Sea oil and gas through the Energy Security Strategy (ESS) and the Energy Profits Levy would provide an insufficient policy signal to achieve the UK Government's 50% decarbonisation target for the sector.

Government policies:

- **The North Sea Transition Deal**, published in March 2021, commits to reducing the greenhouse gas footprint of North Sea oil and gas production and processing by 50% by 2030, relative to 2018 levels.
- In parallel, **the UK Emissions Trading System (ETS)** limits total emissions from facilities that are large emitters, including from oil and gas extraction facilities and refineries. In 2022, carbon prices under the UK ETS have reached an average price of £80 per tonne, around 45% higher than the £55 per tonne average price between May to December 2021.



- **Policies to reduce methane emissions**, expected to support 23% abatement for the UK's 2035 targets, are assessed as “**credible**” by the UK CCC 2022 Progress Report. The UK Government has approved the Iron Mains Risk Reduction Programme, with an aim of reducing the risk of methane emissions in gas pipes, while the 2021 Methane Action Plan and flaring reduction plans are based on voluntary commitments.
- **Electrification of oil and gas platforms**: the UK CCC 2022 Progress Report says policies that could deliver 22% of the 2035 abatement for the UK Net Zero Strategy are rated as being at “**significant risk**”. There is no clear mechanism to provide incentives to overcome barriers involved with electrification of oil and gas platforms.
- **CCUS in refineries**: the UK CCC reports “**some risk**” to policies that are being developed, but are yet to be put in place, to achieve the 15% 2035 abatement from these facilities.
- **Bio-energy best-use CCS readiness**: there is “**some risk**” to the 7% 2035 abatement that could be achieved in the Biomass Strategy, which would support growth in domestic biomass supply alongside the rapid deployment of Bioenergy with Carbon Capture and Storage (BECCS) in power generation and biofuels plants.
- **Renewables**: the UK CCC 2022 Progress Report rates policies to support renewable deployment as “**credible**” to deliver the 80% 2035 abatement within the electricity generation sector. This is particularly due to the increased Energy Security Strategy (ESS) to deploy up to 50 GW of offshore wind by 2030 and 70 GW of solar by 2035. This can be achieved through annual auctions for low-carbon electricity contracts, including onshore wind and solar. The ESS also commits to reduce consenting time for offshore wind projects.
- **Flexible low-carbon generation and storage**: which is expected to contribute 10% of 2035 abatement for the sector is rated as having “**some risk**” to delivery. Policies include the commitment for at least six long-duration storage demonstrators to be in place by 2025, with innovation funding awarded in 2022. The Dispatchable Power Agreement is still being finalised with the aim that at least one CCS power plant will be operational by the mid-2020s. However, although some progress has been made on low-carbon readiness standards for new power plants, the Hydrogen Strategy lacks a clear objective for the role of hydrogen in electricity supply.
- **Nuclear**: the UK CCC rates policies for nuclear, which could potentially deliver 10% of the UK's 2035 abatement, to be at “**significant risk**”. These policies include the ambition to deploy up to 24 GW of nuclear capacity by 2050. However, funding models and timely delivery for financial close and construction, are key risks.
- **Electricity market design and networks**: the UK CCC 2022 Progress Report rates policies enabling flexible demand (e.g the Smart Systems and Flexibility Plan, Energy Digitalisation Strategy, smart meter installation targets for energy suppliers, and Ofgem implementing half-hourly settlement by 2025 to enable smart tariffs) as being “**credible**”. However, policies involved with expanding network capacity have “**some risk**” in terms of delivering sufficient increased generation to meet rising demand in time. This could be improved with a new, independent Future System Operator (the FSO), which will have a more strategic remit. The UK Government has also committed to publishing a strategic framework in 2022, with Ofgem, on net zero networks. Ofgem has recently announced a five-year plan to transform local energy grids to support the transition to a cleaner, affordable, homegrown low carbon energy system, by proposing significant spending of £21 billion.

Other external dependency:

- **CCUS**: is considered to be necessary for the UK to reach its net zero goal as it removes the emissions from hard to abate sectors. The North Sea provides significant storage opportunity and the UK Government is in the process of finalising how it will support the implementation of carbon capture technology and the building of storage facilities offshore.
- **Customer behaviour change**: Despite decarbonisation of the grid and electrification of the economy, material demand for fuel remains, which requires a fundamental shift in consumer demand. In addition, there will need to be greater public understanding and acceptance towards a future energy system featuring widely distributed renewable plants and associated grid infrastructure.



Climate transition plan: Helping to end the most harmful activities

We recognise that through our financing activity, NatWest Group and our customers can have environmental, social and ethical (ESE) impacts that contribute to climate change. To help us assess and manage these risks, we have an ESE risk framework comprising policies and processes to give us better insight into our customers' activities and to enable us to address issues of concern.

As part of our climate ambition announced in February 2020, we stated that we planned to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021, with a full phase-out from thermal and lignite coal by 2030; and to stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021.

Potential Opportunity	Customer Segment	Progress in 2022	Impact in 2022
Tightened Ethical, Social and Environmental (ESE) criteria	Commercial & Institutional	<p>We continue to prohibit new lending and loan underwriting to coal customers and we plan to:</p> <ul style="list-style-type: none"> phase-out of coal for UK and non-UK customers who have UK coal production, coal-fired generation and coal infrastructure by 1 October 2024, followed by a full phase-out of coal by 1 January 2030. <p>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. In 2022, we further tightened our oil and gas ESE policy:</p> <p>We announced we would only continue to support upstream oil and gas companies:</p> <ul style="list-style-type: none"> where the majority (>51%) of 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. <p>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 31 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.</p> <p>Previously, in December 2022 we also announced we will stop lending and loan underwriting to soft commodities producers operating in tropical regions⁽¹⁾ who have not obtained sustainable certification of their direct soft commodities activities and supply chain by 31 December 2024. This means obtaining the following certifications and memberships:</p> <ul style="list-style-type: none"> Forestry, Rubberwood, Pulp and Paper – Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC). Palm oil – Roundtable on Sustainable Palm Oil (RSPO). Soy – Roundtable for Responsible Soy (RTRS). Beef/Leather – Global Roundtable for Sustainable Beef (GRSB)/Leather Working Group (LWG). Cocoa – Rainforest Alliance, Fairtrade. 	<p>As a member of the Powering Past Coal update, we continued to support the alliance's aims as we progress towards a full phase-out of coal by 2030. Total exposure to the oil and gas sector increased by £0.3 billion compared with 31 December 2021 – £3,577 million as at 31 December 2022 compared to £3,254 million as at 31 December 2021. Increases in oil and gas exposure in 2022 are largely attributable to foreign exchange movement.</p> <p>Refer to section 5.1 for further details.</p>
Credible transition plan assessments – oil and gas	Commercial & Institutional	<p>We previously announced we would stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021.</p> <p>In 2021, we completed Credible Transition Plan (CTP) assessments for oil and gas majors and customers with more than 15% of their activities related to coal (thermal and lignite) engaged in mining, power generation and trading activities. These assessments involved three components: a quantitative assessment using an independent third-party proprietary model to assess alignment with the 2015 Paris Agreement; a credibility assessment; and finally a management review and assessment. For further details of this assessment process refer to pages 30 - 31 of our <u>2021 Climate-related Disclosures Report</u>.</p> <p>Coal customers who had less than 15% of their activities relating to coal and were not in scope of the CTP assessment are still required to fully phase-out of coal by 2030.</p>	<p>As at 31 December 2022 our exposure to oil and gas majors amounted to £0.9 billion^(*) (31 December 2021 – £0.8 billion), representing 25% of the total exposure to the oil and gas sector.</p> <p>Exposure to coal customers, within the scope of the CTP analysis, was £0.3 billion^(*) as at 31 December 2022 (£0.6 billion as at 31 December 2021).</p>

(1) Producers of goods such as palm oil, soy and cocoa operating in tropical, sub-tropical and temperate rainforests.

(*) Within scope of EY assurance. Refer to page 10.



Climate transition plan: Food system

The food system spans from primary activities in agriculture, livestock rearing and fishing to activities involved in processing, packaging and distributing food as well as food retailers and markets, and the management of food waste. NatWest Group lending to this sector was £4.8 billion at 31 December 2022 (£5.1 billion at 31 December 2021).

System context: The food system has a vital part to play in ensuring food security in the UK economy. As per the National Statistics on Agricultural Land Use in United Kingdom at 1 June 2022 published by the Department for Environment, Food and Rural Affairs (DEFRA) in December 2022, farms account for almost 70% of the total area of the UK in 2022. As per the UK CCC 2022 Progress Report published in 2022, agriculture and land accounts for 12% of total greenhouse gas emissions in the UK and the land use sector needs to become a net sink by the mid-2030s if the UK is to achieve its net-zero targets by removing more greenhouse gases from the atmosphere than emissions released from land use activities. We recognise that creating the business case for farmers and landowners to invest into more sustainable agricultural technologies and practices requires an alignment of financial and regulatory incentives across the entire food system. Development of the initial iteration of our Climate transition plan during 2022 has primarily focused on the agriculture sector with estimated absolute emissions related to primary farming activities of 3.9MtCO₂e at 31 December 2021 and emissions intensity of 2,111 tCO₂e/£m. This work included assessment of opportunities for NatWest Group to support its agricultural customers to reduce and reverse impacts to climate and environment as well as engagement with the UK Government, wider food system and NGOs to create practical solutions to support farmers and landowners to contribute to the achievement of the UK's climate targets.

Key products and services to support decarbonisation:

- Development of green lending products:** As part of our £100 billion climate and sustainable funding and financing target, we continue to provide funding that meets customer need and incentivises transition across a range of business models to enable sustainable agriculture. On 1 January 2023, we expanded the scope of low-carbon technologies and practices that qualify for climate and sustainable funding under the "Sustainable Agriculture" category.
- Supporting agriculture customers through rising cost of living:** In July 2022, we made available £1.25 billion in lending support for agricultural customers through a range of measures including loans, asset finance, and increased overdraft limits. The lending support also aims to help farmers fund their transition to more sustainable practices, through the bank's lending products. Refer to the case study on page 44 for an example of support provided to customers in the agriculture sector.
- Partnership with the Sustainable Food Trust to digitise the Global Farm Metric (GFM):** The GFM establishes a common language and baseline of data for sustainability which has the potential to strengthen and align existing metrics of the food and farming industry. We are supporting the digitisation of the GFM to provide it as a tool to farmers to make it easier for them to measure and track the climate and nature impacts from change in their practices. In 2023, we will work with both farmers and food suppliers who use other measurement tools to test inter-operability with GFM with an aim to develop more consistent measurements.
- Developing partnerships with food manufacturers and retailers:** aligned with the systems thinking approach, we are working with selected food manufacturers and retailers to co-develop financial solutions that will allow farmers in their supply chain to have access to our climate and sustainable funding and financing. We plan to continue this in 2023 by co-designing financial solutions appropriate for the procurement practices of agri-food businesses to scale access to our financing for green and transition activities, to their farmers.

External dependencies to support transition:

Customer and other external dependencies

- Customer awareness:** customers in the agriculture sector are at an early stage of their transition journey. As a result, the current focus to support transition is on increasing awareness and providing customers with tools such as the Global Farm Metric so they can assess the emissions impact of their activities.
- Cost of living challenges faced by customers:** overall inflation for input costs to farmers is around 25%, but more than 200% for key inputs such as fuel, fertilisers and animal feed. These high costs are putting capital constraints on agri-food customers, limiting their ability and willingness to invest in buying low-carbon equipment and adopting changes in practices that have high upfront costs and longer time scales to pay back the farm for achieving environmental outcomes.
- Technology developments:** lower carbon technology developments, including low carbon farming practices such as hydrogen for heavy mobile equipment, are required to reduce emissions intensity.

To support our customers we will continue to engage with the UK Government and private and NGO partners to create partnerships and collaborations to align fiscal, regulatory and market incentives to support farmers and landowners to achieve mass-scale in decarbonisation.

- Joint statement with WWF, Tesco and Nature-Friendly Farming Network to DEFRA:** In November 2022, WWF, NatWest Group, Tesco, and the Nature-Friendly Farming Network signed a joint statement to the UK Government to raise the ambition of, and encourage delivery of, all parts of the Environmental Land Management (ELM) Scheme to support English farmers to work with nature, reduce their input costs, and adapt to a changing climate, all while providing healthy, affordable, and sustainable food. This joint statement was signed by over 50 organisations across the food system. This is the first-time that representatives from food and finance have come together in support of strengthening ELMs. In 2023, we will continue to work collaboratively with these signatories.
- Sustainable Markets Initiative:** NatWest Group and WWF co-hosted an interactive event at COP27 in Sharm El-Shaikh that had over 60 senior executives representing policymakers, companies, farming organisations, NGOs and financial institutions involved in the global food system to share experiences and develop practical and action-oriented solutions to enact the recommendations in the [SMI Agricultural Taskforce's Report "Scaling Regenerative Farming: An Action Plan"](#).





Climate transition plan: Food system continued

The UK CCC 2022 Progress Report rated the policies expected to reduce emissions from agricultural and land use activities by adopting low-carbon farming and productivity measures for both livestock and arable land as being at “significant risk” in delivering outcomes to the scale needed to achieve climate targets due to lack of clarity or insufficient plans. The UK CCC 2022 Progress Report has also provided an overall score of policies targeted at financing activities that can sequester carbon as sinks by planting of hedgerows, trees, soil sequestration and restoring peatlands as being at “significant risk”.

Noted below are the key policies, including related abatement potential and UK CCC’s assessment in 2022:

- **Productivity and low-carbon farming policies** expected to achieve 38% of the 2035 abatement needed are at “**significant risk**” of delivery due to limited roll out under the Sustainable Farming Incentive for specific farming activities. As per the UK CCC 2022 Progress Report, “timescales and incentives remain short-term, with scheme details incomplete. There is a reliance on farmers to voluntarily take up low-carbon farming measures, as well as a high dependency on future technology and innovation”.
- **Restoration of peatlands** expected to deliver 30% of the 2035 abatement is scored as “**significant risk**” by the UK CCC as the funding for peatland restoration pledged via the Nature for Climate fund in the devolved nations is typically short-term and risks not meeting ambition. Similarly, the Local Nature Recovery Fund under Environmental Land Management System (ELMS) England, which is expected to deliver peatland restoration from 2025 onwards, is lacking detail.
- **Agroforestry and hedges** meant to deliver 11% of 2035 abatement are rated as “**significant risk**” of delivery. Fiscal incentives in 2022 were primarily delivered in the Countryside Stewardship Scheme in England, with Sustainable Farming Incentive standards forecast to be launched for hedgerows and agroforestry in England in 2023 and 2024, respectively. Scotland’s Climate Change Plan update does address agroforestry and hedgerows, however, detail is limited.
- **Afforestation policies**, meant to deliver 9% of 2035 abatement, are scored as having “**significant risk**” as current planting rates are not on track to meet the UK-wide annual targets of 30,000 hectare per annum by 2023, particularly for woodland creation in Scotland. This is partly due to non-financial barriers: such as tenant farmers being unable to plant on land due to contractual issues, availability of skilled labour, and measurement definitions to track progress (e.g. how tree canopy is defined).
- **Biomass policy** is considered to have “**insufficient plans**” for delivering 12% of the 2035 abatement due to insufficient plans from the Biomass Policy Statement that was published in 2021.
- **Behaviour changes to food demand and consumption** is considered to have “**insufficient plans**” as the UK Government Food Strategy does not set out clear targets for the food system’s impact on health, nature and climate. The UK CCC BNZ scenario assumes a 20% diet shift away from all meat and dairy products by 2030, which is substituted by plant-based proteins.





Climate transition plan: Case study

Supporting sustainable agriculture

Reducing costs and emissions while unlocking growth



We're proud to be playing a leading role in the UK's transition to net zero. Our target to provide £100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025 will enable our customers to implement green solutions and help businesses become more energy efficient, sustainable and resilient.

As part of the initial iteration of our Climate transition plan, we are prioritising sectors with high emissions. With agriculture representing 1.1% of NatWest Group's gross lending as at year end 2022 and a high rate of emissions (see section 5.5), we're committed to helping our farming customers reduce their collective carbon footprint.

Our relationship managers and frontline teams are working closely with our agriculture customers to understand the challenges they face, supporting them to adopt new technologies and sustainable farming practices to build their resilience in the face of a changing climate and unprecedented increases in operating costs.

Our relationship managers and frontline teams are working closely with our agriculture customers to understand the challenges they face.



(1) Green Asset Finance is available to UK businesses with an annual turnover of less than £25million, wishing to invest in clean buildings, clean energy, clean transport – including electric vehicles – and agriculture. Finance is provided by Lombard, with no arrangement fee, for a minimum facility value over £25,000 and less than £10 million. Eligibility does not imply compliance with any green or similar taxonomy or standard. Finance without an arrangement fee is already also through Lombard's digital channel.

In 2022, we supported agriculture company Newhay Feeds Ltd to apply for Green Asset Finance, a new product that offers financing with no arrangement fee for projects investing in eligible clean buildings, energy, transport and agriculture. Green Asset Finance⁽¹⁾, along with our Green Loan proposition also launched in February 2022, contribute to our climate and sustainable funding and financing target.

Based in Yorkshire, Newhay grows, harvests, dries and packages hay for pet food. With Green Asset Finance, the company invested in a new, state-of-the-art hay dryer. The equipment enables Newhay to use labour and machinery more effectively. Crucially, during the harvest period, daily output has now risen from 30 tonnes to 50 tonnes for half the fuel costs, resulting in lower carbon emissions for the business.

We have been helping the agriculture sector thrive for more than 200 years. Through our climate and sustainable funding and financing, we are continuing to support our customers' transition to a net-zero, climate-resilient and sustainable economy.





Climate transition plan: Financial system

The Financial system encompasses support for a broad range of financial institutions (FIs), including banks, asset managers, insurance companies, specialist finance and hedge funds across Commercial & Institutional, as well as offering investment opportunities to customers through our Asset Management function within Private Banking. Our climate ambition recognises the importance of mobilising the entire financial system to accelerate pace towards net zero. During 2022, we focused on FI customers and the assets under management portfolio, to develop transition plans.

Financial Institutions (FIs):

COP26 highlighted the significant role FIs play to align private capital with global climate commitments. Regulators, investors and capital providers have continued to increase pressure on FIs to embed and evidence robust sustainability strategies. NatWest Group lending to this sector was £20.9 billion⁽¹⁾ as at 31 December 2022 (£20.1 billion as at 31 December 2021).

Key products, services and business model changes to support decarbonisation:

- **A large part of FIs' emissions relate to Scope 3 emissions from providing products and services to customers.** Due to lack of granular availability of customer-level climate data, FIs are still developing measurement methodologies and capabilities to assess their Scope 3 emissions. As a result, the current estimate of Scope 1 and 2 emissions for FI customers is not reflective of the full emissions profile of these customers.
- To support decarbonisation of this sector, we have **focused on education and engagement** within the sector to support aligning customers with net-zero trajectories. We are also working to develop a qualitative transition plan assessment for customers within this sector to assess the impact of their net-zero ambitions on future emissions profile. Refer to section 3.6. for customer decisioning framework and tools being developed. As these tools are developed and implemented, these are expected to support the identification of customer engagement initiatives to enhance commercial propositions as well as informing balance sheet mechanisms to further embed climate into decision-making.
- **Our suite of Climate and ESG products and services** are key to support customers' transition strategies. Teams across Commercial & Institutional collaborate to deliver a market-leading proposition to customers, to influence our customers' decarbonisation journey and build deeper customer relationships.
- **Sustainable-linked lending for our Insurance and Private Finance customers** acting as ESG coordinator focused on decarbonisation pathways.
- **Thought leadership including RBS International launching the 'Pressure is mounting' research report**, surveying 125 industry influencers to understand the extent to which Alternative Investment Funds are adopting science-based targets and the barriers blocking their path.
- **Provision of regulatory advisory translating 'green taxonomies' into product solutions and ESG ratings** advisory to assist our customers' articulation of their climate ambitions.
- **Engaging with our FI customers** on Carbonplace as a partner and/or participant.

External dependencies to support transition:

- There is a **dependency on the availability of granular customer-level climate data** to enable FI customers to assess their Scope 3 emissions as well as develop transition plans.
- Enablers could potentially include the **establishment of an industry-wide methodology for FI Scope 3 emissions accounting, as well as minimum reporting standards across all sectors**.

(1) Lending exposure to Financial institutions excluding Reverse Repurchase agreements and other short term lending.

Asset management:

Relates to investment products and services for retail customers across NatWest Group. Diversification across asset classes, sectors and countries plays an important role in our ability to provide suitable products for a broad range of retail investors, helping us manage risks such as liquidity and volatility. Our funds and portfolios are predominantly invested in (third-party) funds with limited direct exposure to equities and bonds. Part of our role as a globally diversified investor is to increase the speed at which companies are reducing their emissions and investing in climate solutions. As we invest in third-party funds, working with fund managers to align their products to a net-zero trajectory forms a core part of our Asset Management net-zero strategy.

Total NatWest Group AuM were £28.3 billion as at 31 December 2022 (£30.2 billion as at 31 December 2021).

Key products, services and business model changes to support decarbonisation include:

We focus on aligning our funds and discretionary portfolios with a net-zero trajectory, seeking out funds that we deem to have a credible plan to achieve net zero by 2050. We are working towards achieving our portfolio alignment targets, described in section 3.3, by:

- **Designing our Net Zero Investment Framework**, which uses qualitative and quantitative data sourced from fund managers to assess the credibility of their net-zero strategy, related commitments and progress made against these. This complements our carbon reduction targets by identifying datapoints that we consider to be indicators for future decarbonisation.
- **Embedding our net-zero ambition into our core investment products**, by building a minimum allocation to assets that are already on a net-zero trajectory into the fund prospectus.
- **Leveraging our strategic relationship with BlackRock** to build average annual decarbonisation into our Coutts ESG Insights funds, and developing a net-zero approach for our active Coutts funds.
- **Building net zero into our engagement activity** with companies and funds and demonstrating our net zero ambition through our voting activity.

External dependencies to support transition:

- As an investor in third-party funds, we are dependent on the asset management industry to design products that are aligned to net zero and have sufficient scale.
- Voting and engagement is most effective if the asset management industry is moving jointly in the same direction. This requires consensus on engagement priorities and collaboration to set out standards and expectations around net zero.
- As a global investor we need decarbonisation to happen on a global scale rather than in isolated geographic segments, therefore requiring not only national policy action, but supranational cooperation and global consensus around how net zero will be achieved.



Climate transition plan: Case study

Supporting Germany's first five-year green bond syndication

NatWest Markets facilitating responsible financing



In August 2022, the Federal Republic of Germany issued its first syndicated five-year green bond.

Following NatWest Markets lead managing the UK's first green bond, it was mandated by Germany's Finanzagentur – the central service provider for the Federal Republic of Germany's borrowing and debt management – to support the syndication of its €5 billion five-year green bond. This was NatWest Markets' first ever syndication for the German sovereign, and follows on from NatWest Markets leading the UK Government's long-dated £6 billion green bond syndication in October 2021 and Italy's €8.5 billion in March 2021.

Prior to issuance, NatWest Markets helped to establish a successful launch and take-up of the bonds. In particular, NatWest Markets facilitated strong engagement with ESG investors to achieve the issuer's climate ambitions, especially with regard to the energy crisis being experienced in Europe.

Additionally, an extensive review of Germany's ESG ratings proved to be a key area of engagement with the Finanzagentur. NatWest Markets helped benchmark Germany versus other European sovereigns to provide the client with an in-depth understanding of their rating and immediate actions that could be made to improve their score.

NatWest Markets facilitated strong engagement with ESG investors to achieve the issuer's climate ambitions, especially with regard to the energy crisis being experienced in Europe.

NatWest Markets also reached out to gauge investors' feedback on the transaction pre-launch. This ensured that queries or concerns were answered prior to launch facilitating a successful execution.

In terms of the investments that the bonds will be funding, the Finanzagentur's Green Bond framework incorporates projects across five categories, with the majority of the sovereign's current eligible expenditures focusing on climate change mitigation.

Importantly, it also dedicates a large proportion to biodiversity objectives, which account for 12% of identified expenditures.

The transportation sector attracts half of the eligible expenditures, including rail transport, road and modal shift to environmentally friendly transportation. The portion directed to renewable energy projects almost doubled prior to its initial green bond launch, incorporating measures ranging from energy efficiency to research and innovation in renewables.





3.5

Climate transition plan: Powerful partnerships and collaborations – Industry engagement

We know combating climate change must be a collaborative and wide-reaching effort. Our plan is to work collaboratively with our partners, stakeholders and peers to deliver our climate ambition, keeping in mind accordance with relevant anti-trust rules. During 2022, NatWest Group continued to engage with investors, non-governmental organisations (NGOs) and other key stakeholders on the actions we are taking to play our part in addressing the climate challenge.

Below we list some of the examples of how we're partnering with others to unlock opportunities connected with the net zero transition.

Area of activity	Details of collaboration
Engagement to influence the net zero agenda	<ul style="list-style-type: none"> We are a founding member of GFANZ through which we collaborate with peers, policy makers and other stakeholders. Within GFANZ, NatWest Group's CEO co-leads the sub-working group on Real Economy Transitions. Engagement is monthly through the Real Economy workstreams. Insight from this group supports the progress being made on the initial iteration of our Climate transition plan. Established by the UK Treasury in 2022 and led by a steering group of business leaders including representatives from NatWest Group, the Transition Planning Taskforce (TPT) has a two-year mandate to develop guidance to help financial institutions and listed companies create transition plans. Our CEO sits on the steering group, enabling NatWest Group to support the development and implementation of the UK's Sustainability Disclosure Requirements, supporting the standardisation of transition plans, which will drive commercial decarbonisation. Throughout 2022 we continued to work with the Science Based Targets Initiative (SBTi) to validate our 2030 sector emissions reduction targets. These targets underpin the initial iteration of our Climate transition plan, included within this report, guided by the work of GFANZ and the TPT. NatWest Markets acted as co-ordinator of the newly established International Capital Market Association (ICMA) Sustainable Commercial Paper working group, contributing to the development of industry guidelines for this emerging asset class. We chaired the Financial Markets Standards Board (FMSB) ESG Ratings working group, producing a white paper examining ESG rating methodologies and engagement. We are members of the Net Zero Asset Managers initiative (NZAM) and the Institutional Investors Group on Climate Change (IIGCC) to shape standards around net zero for the asset management industry Aligned with TCFD recommendations, CDP is considered the global benchmark for corporate environmental reporting. NatWest Group achieved a B score in the 2022 CDP Climate Change Survey. We are a founding member of the Sustainable Markets Initiative (SMI), participating in the SMI's Financial Services Taskforce. In 2022, the SMI awarded us the Terra Carta Seal to recognise our commitment to, and momentum towards, the creation of sustainable markets.
Embracing innovation to help accelerate change	<ul style="list-style-type: none"> NatWest Group is one of nine financial institutions that helped found and develop Carbonplace, a global first marketplace, which harnesses blockchain-enabled distributed ledger technology to enable the simple, secure, and transparent transfer of certified carbon credits. As part of our ambition to help businesses benefit from the transition to net zero, we announced a new Clean Transport Accelerator hub in collaboration with the Warwick Manufacturing Group (WMG) at the University of Warwick, providing coaching, workspace and access to clean-energy, manufacturing and automotive experts. In 2022, NatWest Group continued to partner with the Sustainable Food Trust (SFT) to support the development of the Global Farm Metric (GFM), a common framework of farm sustainability metrics and an accompanying assessment tool that will enable farmers to measure their environmental and social impact.
Collaborations supporting decarbonisation	<ul style="list-style-type: none"> Our continued partnership with Octopus Energy in 2022 intends to make it simple for customers and colleagues to move to electric vehicles (EVs). In 2022, both individual and business customers have been able to have electric charging infrastructure installed at reduced cost. Lombard has worked with Diode, an innovative technology start-up, to inform and support commercial customers looking to transition to EVs. The resulting Lombard EV Readiness Assessment helps businesses choose the right replacement vehicles for their fleet, helps employees to pick an EV to suit their lifestyle and shows potential running cost and CO₂ savings across the business. The tool also provides information on expected charging infrastructure needs, which can be supported through our partnership with Octopus Energy. Following the launch of the Sustainable Homes and Buildings Coalition's first <i>Home is Where the Heat Is</i> report in October 2021, we launched a demonstrator project in April 2022, to illustrate the learnings and key challenges from a full retrofit journey across a spread of customer and housing types. Since then, we have worked together with British Gas, Worcester Bosch and retrofit partner Quidos Ltd to provide a fully funded end-to-end retrofit pilot. Announced through our second <i>Home is Where the Heat Is</i> report, launched at a Parliamentary event in October 2022, an interim report on the pilot included a summary of key findings and customer experiences so far, as well as five key policy asks of the UK Government. NatWest Group is a founding member of a consortium including Pineapple, British Gas, Schneider Electric and Places For People. The consortium is working with a range of housing associations and local authorities to increase the scale of retrofit across the UK. The group aims to address the gaps in implementation capability, technical capacity and economic viability that cause failures in the market. NatWest Group is also supporting the environmental goals of the Greater Manchester Combined Authority Retrofit Taskforce, with an ambition to renovate 887,000 homes, 700 local authority controlled schools and 2,700 public sector buildings as well as provide retrofit training to 80,000 existing construction workers.



Climate transition plan: Education – colleague engagement

In April 2022 we announced a three-year partnership with the University of Edinburgh, investing £1.5 million to make climate education available to all NatWest Group colleagues. This builds on our earlier successful collaboration with the University of Edinburgh Centre for Business, Climate Change and Sustainability (UoE B-CCaS) and seeks to support the evolution and growth of existing programmes. The renewed collaboration will deliver new awareness education to all colleagues across NatWest Group, as well as specialist learning to more than 16,000 people by the end of 2024.

Education as an enabler

We all have an important role to play in the transition to a more sustainable future. At NatWest Group, we recognise the importance of investing in our people to build the future skills and behaviours we need to realise our purpose.

With an initial focus on climate change and the environment, learning programmes have been designed at three different levels to enable colleagues to develop the capability relevant to them. The aim is to create a consistent language across our organisation, promoting better discussions, decision-making and risk management, while facilitating good customer conversations to support their transition.

A tailored approach

Building on the success of previous education programmes, we continued to drive a One Bank approach, working with the business to listen, learn and evolve our approach centred on three key ambitions:

- Providing easily accessible climate awareness learning, enabling people to take ownership and act.
- Equip colleagues in priority roles with the capability to do their job, manage climate-related risks and support customers to transition.
- Inspire climate action and innovation through learning, thought leadership and global outreach.

Developed using colleague insights and testing, we use a range of learning materials to engage colleagues including:

- A blended mix of self-paced learning, delivered through multi-media bitesize content, complemented by live events to help activate and embed knowledge.
- Content across a range of topics tailored to different job roles, areas of the bank and levels of experience.

- Harnessing voices from across the business through interviews, case studies and live project examples to help colleagues understand the opportunities and challenges.
- Tools for thinking and action – to aid discussion, analysis and behaviour change in team meetings and conversations with customers.
- Promoting a culture of continuous learning by bringing peers together to share knowledge and best practice.

Enhancing capability, developing expertise

To re-baseline climate awareness and catalyse action across the organisation, driving further engagement and advocacy, this year we launched the Climate Change Fundamentals to 64,611⁽¹⁾ colleagues. Comprised of six bitesize digital modules featuring micro lectures from the UoE B-CCaS, NatWest Group and industry experts, the content was designed to help colleagues connect climate change to their role, understand the potential impacts and the positive actions they can take both personally and professionally.

In addition, 610 colleagues completed the Climate Change Transformation Programme in 2022, bringing our cumulative total to 1,721 colleagues over the past years. This bespoke 12-week programme, designed in partnership with UoE B-CCaS, gives colleagues the necessary knowledge to support our climate ambitions. The content helps to develop an understanding of and the ability to drive sustainable leadership, systems change, effective decision-making, risk management, managing client conversations and green innovation, building confidence and agency to take action.

Over 4,000 colleagues took part in our Sustainable Futures 101 awareness series covering topics including climate, biodiversity, oceans, transport and energy. This was led by our employee-led Sustainable Futures Network, which supports colleagues to engage with sustainability at a grass roots level.

(1) Includes some types of contingent workers.

Sector spotlight:

This year also saw the roll out of sector-specific climate training programmes across commercial real estate, retail and leisure and manufacturing, and a continuation of the agriculture programme launched in 2021, supporting relationship managers and risk roles to build their knowledge, skills and confidence.

Commercial real estate

The UoE B-CCaS and NatWest Group worked with several industry partners including real estate expert Cushman and Wakefield to support the commercial real estate specialist training. Since launching in April 2022, 290 colleagues have completed the training which will continue in 2023.

After completing the programme more than 90% of respondents agreed or strongly agreed that knowledge of climate change contributes to enhanced organisational resilience, better decisions, improved engagement with stakeholders and enhanced protection against business risks.

Key takeaways were:

- The scale and urgency of the challenge
- The impact of the real estate sector on climate change
- What customers need to do to improve their energy performance
- The impact of climate change and associated risks

Making a difference

Since going through the learning colleagues have stated actions taken as a result of the programme include:

- Having meaningful conversations with customers to support their transition
- Consideration of climate-related risks in decision-making
- Cascading learning to team/colleagues
- Changing personal habits and pursuing further learning on climate change

In one 2022 example, following completion of their sector training and ahead of a refinancing deal, a relationship manager supported a customer to develop a strategy for their property portfolio, giving them further awareness of climate-related risks and the regulatory roadmap.

The main impact from the programme was increased confidence and awareness. 96% of respondents felt they had learned how their role and profession can aid in combating climate change and 86% felt better equipped to respond to and make decisions connected with climate change impacts.

64,000+(1)

NatWest Group colleagues gained access to our Climate Change Fundamentals training in January 2023, with six months to complete the 60-minute learning.

546

colleagues completed sector-specific climate training across commercial real estate, retail and leisure, manufacturing and agriculture in 2022.



Climate transition plan: Government and policy engagement

As noted in section 3.4 there is a significant dependency on timely and appropriate government policies as well as on our customers and society to respond.

Given the dependence on timely and appropriate government policies to support our climate ambitions – and those of our customers - engagement with the UK Government is key part of our strategy to support the transition net zero. Given macro instability in the external environment and the ongoing cost of living crisis, we have focused our engagement on heat and buildings and food security, given these sectors have most impact on the day to day lives of our customers and that there is significant potential for further evolution of government policy in this space to support the transition to Net Zero.

NatWest Group also provided extensive input into the Independent Review of Net Zero led by Chris Skidmore MP, commissioned by the previous Prime Minister, Rt. Hon Liz Truss MP. NatWest Group welcomed the review, which concluded that net zero is the growth opportunity for this century, with the UK well-placed to take advantage, with the potential for 480,000 jobs supported by the transition by 2030. The report makes 129 recommendations across a wide range of issues of strategic importance to NatWest Group, including Transition Plans, support for SMEs, Transport, Agriculture, Skills and Carbon Markets. The review makes several recommendations on energy efficiency in line with NatWest Group's own policy advocacy. Through our work on developing our climate transition plan, we have developed a view on key policies required to support homeowners to decarbonise. The policy work is supported by regular engagement with the UK Government and other political and industry stakeholders to inform and develop effective policy. The key NatWest Group policy asks on home energy efficiency are:

- Public awareness campaign on energy efficiency measures;
- Investment signals, including local area energy planning;
- All homes sold must be rated EPC C+ by 2033;
- Support low interest loans to help households improve their performance; and,
- Introduce an energy saving stamp duty rebate.

In 2022, we also worked alongside the UK Government to support the UK Pavilion at COP 27 and hosted high profile events with customers and partners like the Sustainable Markets Initiative (SMI) and WWF. In addition, we published our second thought leadership report, A Springboard to Sustainable Recovery⁽¹⁾, that highlights a £175 billion+ revenue opportunity for the UK economy between now and 2030 through the transition to Net Zero.

Furthermore, we continued to be an active participant in The Sustainable Homes and Buildings Coalition. During Q4 2022, the Coalition published its Home Its Home is where the Heat Is: Progress Report⁽¹⁾, which reiterates the Coalition's call to the government to make energy efficiency a national priority. The report was delivered on the 19th October 2022 to politicians, industry-leading figures, and charity representatives.

During 2023, we will continue to work with the UK Government as well as peers and industry partners to support our customers' and the UK's decarbonisation journey.

Note:

During 2022, NatWest Group made no political donations, nor incurred any political expenditure in the UK or EU. For further details see page 174 of the 2022 NatWest Group plc Annual Report and Accounts.

(1) These reports (i) have been prepared by NatWest Group for information and reference purposes only; (ii) are intended to provide non-exhaustive, indicative and general information only; (iii) do not purport to be comprehensive; and (iv) do not provide any form of legal, tax, investment, accounting, financial or other advice. The key findings, estimates and projections in these reports are based on various industry and other information and are based on assumptions and estimates and the result of market research, and are not statements of historical fact. Whilst the information of these reports is believed to be reliable, it has not been independently verified by NatWest Group and NatWest Group makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates included in these reports are solely those of the NatWest Group Economics Department, as of this date and are subject to change without notice.

'The need for further action is clear. For all the UK's successes and clear ambition shown by government, it is not on track to deliver on all of its commitments according to the latest progress report by the CCC, which shows risks across most sectors – but particularly agriculture, aviation, waste, and buildings decarbonisation.'

Mission Zero, Independent Review of Net Zero Report by Rt Hon Chris Skidmore MP, published in January 2023





3.6

Climate transition plan: Embedding climate in decision-making

To continue to further evolve the initial iteration of our Climate transition plan and identify further opportunities to support our commercial customers' transition to net zero, we are developing a customer level decisioning framework and tools within Commercial & Institutional, which will continue to be advanced and tested during 2023.

These tools complement the existing tools, frameworks and balance sheet steering mechanisms in place, to support the decarbonisation of our lending and investment portfolio.

These tools include:

- **Customer Transition Plan Assessment (CTPA):** this is designed as a Relationship Manager-led assessment of customer transition plans, tailored for customer segments and sectoral differences. We plan to leverage existing customer engagement touch points and propositions to gather information around maturity of customers' transition plans. This assessment will help us understand where the customer is in their climate transition journey and opportunities for NatWest Group to support them to transition. Climate actions to date and changes in emissions profile, forward-looking decarbonisation targets, governance and actions in place to execute transition plans will be factored into the CTPA. In late 2022 and early 2023, we launched a small-scale test and learn approach with a small numbers of customers to ensure the framework we develop is fit-for-purpose. This will continue to be refined throughout 2023.
- **Climate risk scorecards:** During 2022, we worked on developing a more quantitative methodology to enhance the existing qualitative climate risk scorecards, already in use. The methodology is designed to assess the inherent level of physical and transition risk the customer faces and considers their ability to mitigate transition risk, using insights from the CTPA. We will use the insights provided by this tool to understand the degree of climate-related risk faced by our customers and how they can best mitigate these risks. For further details see section 4.2.
- **Internal Carbon Pricing (ICP):** This is an internal management framework to embed climate in decision-making, including decisions related to lending transactions, with an aim to support customers' transition. In its fully developed state, ICP will be assessed based on customer emissions profiles coupled with their transition potential based on individual CTPA assessments. In 2022, we started to test this framework at a sector level and will continue to refine the approach, methodology and framework during 2023.

The development, testing and evolution of the customer-level decisioning framework and tools will continue during 2023. Once fully developed, our intention is to utilise these tools in supporting business decisions (such as transaction acceptance standards), capital allocation and pricing decisions, portfolio risk appetite measures as well as credit decisions.



Enhanced pricing frameworks

During 2022 Commercial & Institutional also continued to enhance pricing frameworks to factor in purpose and climate considerations. These enhancements and frameworks ensure NatWest Group continues to provide support and incentivises businesses to help address the climate challenge and to reshape the Commercial & Institutional portfolio towards more sustainable transactions and sectors.

- For our **SME customers**, enhancements were made to Invoice Finance and Trade Loan pricing frameworks. These enhancements provide pricing discounts for customers within sub-sectors most closely aligned to our purpose and climate ambitions and overall strategic objectives. These enhancements build on our SME Loan and Overdraft pricing frameworks, which were aligned to our climate goals in 2021.
- For **Corporate customers** we continue to allocate a reduced level of capital for customers and transactions that align to our purpose and climate ambitions. This allows for more competitive pricing.



3.7

Climate transition plan: Our own operations

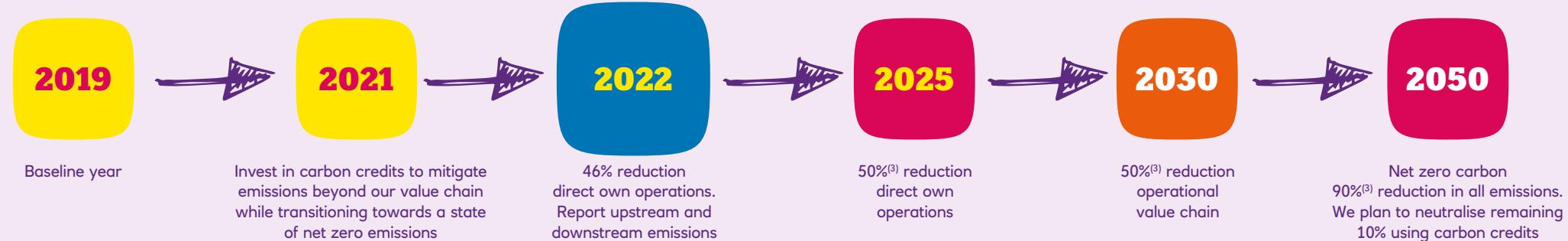
- We are targeting to achieve net zero by 2050 for our operational value chain⁽¹⁾ emissions covering Scopes 1, 2 and all relevant categories in Scope 3. For further detail on our operational value chain please see section 5.4.
- For our own operations, this means aiming to reduce by 50% our direct own operations⁽²⁾ by 2025 and our operational value chain by 2030, with a minimum 90% reduction by 2050. We plan to neutralise the residual 10% through the use of carbon credits in line with 'SBTi Corporate Net Zero Standard' released in October 2021. This phased approach is shown in our road map below.
- We purchased and retired 120,000 carbon removal credits, assured under the [Verified Carbon Standard \(VCS\)](#), and Triple Gold certified to the [Climate, Community & Biodiversity Alliance Standards \(CCBA\)](#) to invest beyond our value chain, and provide benefits to climate, especially those that generate additional co-benefits for people and nature.
- In accordance with the Greenhouse Gas Protocol, our emission reduction targets are not achieved through the use of carbon credits. Carbon credits will only be used to neutralise the remaining 10% of our 2050 target once reductions have been achieved.
- Reductions are calculated using the location-based methodology, as such they do not include the use of renewable electricity certificates to reduce emissions.
- We achieved 46% carbon reduction in our direct own operations (location-based) and are reporting our upstream and downstream operational value chain for the first time this year.
- Projects completed during the reporting year will provide annual energy savings of 15.4 GWh^(*) and cost savings of £2.4 million^(*).
- Approval and accountability of our own operational emissions lies with our executives, including Director of Productivity, and up to C-Suite Board members.
- Our operational emission reductions are linked to remuneration. For further information, please see the remuneration section of our 2022 Annual Report and Accounts.

For further detail on 2022 progress against our key own operational metrics and targets, as well as detail on specific initiatives, please see section 5.4.

Plan risks and assumptions	Mitigation/Action
Availability and cost of renewable electricity certificates as well as carbon credits.	Investing beyond our value chain and agreeing corporate power purchase agreements (cPPAs). In 2022 NatWest Group committed to cPPAs expected to generate 59% of NatWest Group's electricity demand in the UK by 2024.
Technological availability of electric vehicles and other green technology such as solar panels.	Assess electric vehicle lease and need to order vehicles in a timeline that mitigates the anticipated lag.
Low data accuracy could lead to misreporting of own operations emissions figures.	Robust internal controls processes and audit of NatWest Group own operational emissions, which are subject to third-party assurance.
Changes in government regulations and requirements, and availability of guidelines for compliance.	Monitoring of requirements and working with industry experts to advise on upcoming changes. Example: Updating our targets inline with the 'SBTi Corporate Net Zero Standard' published at COP26.
Our business size and scope do not alter significantly, as baseline recalculation may result in differing emissions reductions.	Any significant changes in our operations, size or scope will result in a recalculation of our baseline. Our materiality threshold is 5%.

More information on our assumptions, uncertainties and challenges in executing the initial iteration of our Climate transition plan can be found in our Carbon Reduction Plan required under PPN 06/21 can be found on [our website](#).

Net-zero road map for our own operations



(1) Our operational value chain captures greenhouse gas emissions Scopes 1, 2 and 3 (Categories 1-14, excluding Categories 8, 10, 14). Category 15 is discussed in section 5.5.

(2) Our direct own operations are greenhouse gas emissions from Scopes 1, 2 and 3 (paper, water, waste, business travel, commuting and working from home).

(3) The SBTi recommends that companies invest to mitigate emissions beyond their value chain while they transition towards a state of net zero emissions. In accordance with the Greenhouse Gas Protocol, our emission reductions are not achieved through the use of carbon credits.

(*) Within scope of EY assurance. Refer to page 10.



Climate transition plan: Case study

A sustainable mindset

Embracing sustainable design for our branches



We know that achieving our overall climate ambition means significantly reducing emissions from our direct own operations. Making our branches more sustainable is a vital part of this.

Since 2020, we have been on a journey to improve and embed sustainable practices across all our branch locations.

This has included improving the EPC ratings of our buildings for better energy efficiency, the reuse of furniture to minimise waste, and the use of natural biodegradable or recycled and recyclable materials. In addition, LED lighting is being deployed throughout our branches as standard to further reduce energy consumption.

In 2021, we delivered our first sustainable hub in Bristol: a dynamic space providing a safe and relaxing environment, focused on accessibility and supporting vulnerable customers, and which achieved the Royal Institute of Chartered Surveyors' SKA Silver accreditation⁽¹⁾.

Importantly, this also provided valuable insights into the practices we can deploy elsewhere in other branches.

Since then, we have completed a further four sustainable hubs, all of which have also achieved the SKA Silver accreditation and, importantly, helped us to evolve our learning each time.

We have recently completed refurbishments at our Milton Keynes branch and in our drive towards more circular thinking we continue to maximise the use of pre-loved furniture and recycled materials, as well as implementing technology such as heat pumps and building management systems to assist with reducing energy requirements. This includes daylight energy saving lighting systems and timing clocks for external signage and marketing digital displays.

But our ambition is to do more. We will continue to improve our design practices and use only the most sustainable suppliers and materials with an aim of achieving Gold SKA accreditation in early 2023.

(1) The SKA assessment scheme assesses the environmental impact of refurbishments and fitouts.

Since 2020, we have been on a journey to improve and embed sustainable practices across all our branch locations.



11 SUSTAINABLE CITIES
AND COMMUNITIES



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



13 CLIMATE ACTION



4

Risk management and scenario analysis

How we identify, assess, and manage climate-related risk, including scenario analysis.

In this section

- 4.1 How climate-related risks are integrated into NatWest Group's risk management processes
- 4.2 Our processes for identifying and assessing climate-related risk
- 4.2a Scenario analysis
- 4.3 Managing our exposure to climate-related risk



4.1

How climate-related risks are integrated into NatWest Group's risk management processes

Climate risk is the risk of financial loss or adverse non-financial impacts associated with climate change and the political, economic, and environmental responses to it.

NatWest Group's pathway to integration of climate risk

During 2022 we continued to mature the integration of climate-related risk within NatWest Group's risk management processes. Climate risk was first included as a principal risk in the NatWest Group risk directory in early 2021 alongside an iterative multi-year approach for full integration. The timing of this multi-year journey reflects both the complexity of the task and evolving nature of climate data capabilities and supporting tooling.

In 2021, we achieved the first-generation implementation of climate risk maturity through application of predominantly qualitative approaches, concentrated within priority sectors or customers.

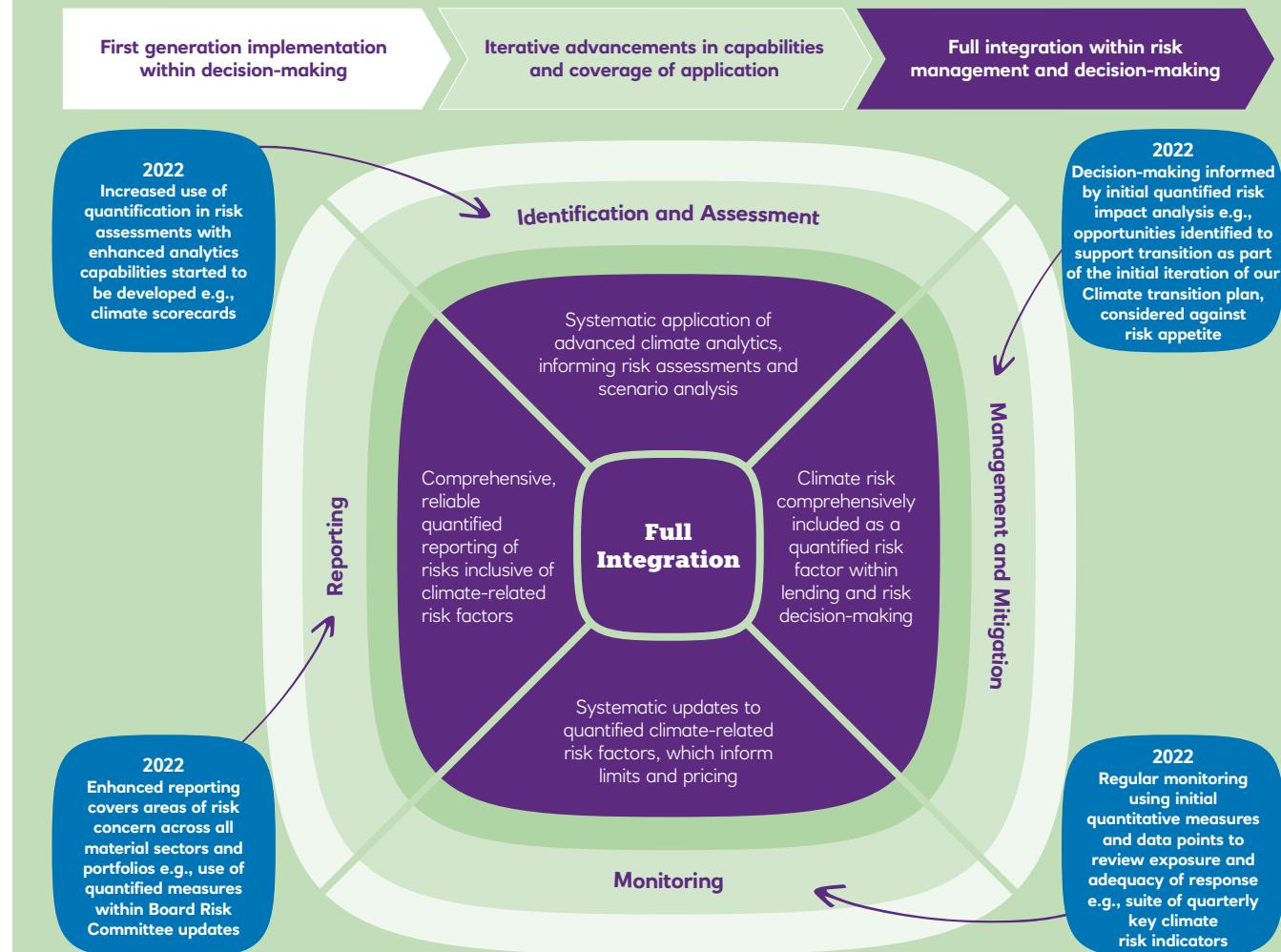
In 2022, we enhanced our level of maturity through:

- an increase in the application of quantitative analysis;
- increased utilisation of data within decision-making, risk monitoring and risk reporting; and
- extending the scope of application, resulting in limited gaps in coverage, across heightened climate-related risk sectors and the customers within.

Examples of 2022 enhancements include:

- Increased application of quantitative climate scenario analysis, used to identify and assess potential climate-related risk impacts upon market risk, pension risk and conduct risk.
- Utilisation and further development of a suite of key risk indicators, with transition underway to operational limits, which have been developed to determine the boundaries that would result in potential risk exposure outside thresholds, and used to inform climate risk reporting.
- Enhancements to risk appetite measures used for monitoring and reporting to Board Risk Committee. New measures were developed in 2022 to provide a focus on monitoring progress towards decarbonisation, both for financing activities and our own operations. These are intended to reflect the correlation with climate-related risk exposure and a deviation from intended transition pathways.

The image below represents our journey to fully embedding climate risk management within business activities and processes, including target state and ongoing progress.





4.2

Our processes for identifying and assessing climate-related risk

Climate risk can arise through either physical, transition or liability risks. The resultant impacts translate to several risks which are characterised, assessed and managed by NatWest Group.

Climate risk is considered relatively significant where NatWest Group's exposure to a principal risk could be taken outside of appetite due to climate-related risk factors. Where this is identified, enhancements are required to the respective risk framework, so it is adequate to respond to climate-related risk.

The following drivers are considered when assessing potential climate-related risks:

Physical Risks

Physical risks arise from the acute and chronic physical effects of climate change on business operations, workforce, communities, investors, markets, infrastructure, and assets.



Acute



Chronic

Transition Risks

Transition risks arises from the transition to net zero and may arise through changes to market, technology, policy, and legislation.



Market



Government Policy and Legislation



Technology



Reputation

Liability Risks

Liability risks can arise if stakeholders consider our climate risk management practices and disclosures insufficient and responsible for, or attributable to, stakeholder losses.



Liability Risks

During 2022, we reviewed and refreshed our assessment of the relative significance of climate-related risk factors to other principal risks. This assessment used the judgement of risk subject matter experts combined with scenario analysis, increased granularity of climate data, as well as improved understanding of evolving regulatory guidance, to understand the current and potential impact of physical and transition climate-related risk as a causal factor to other principal risks.

Climate-related factors were identified as having a relatively significant impact on the following five principal risks⁽¹⁾:

- credit risk
- operational risk
- reputational risk
- conduct risk
- regulatory compliance risk.

Details of our progress on enhancements to risk frameworks for these principal risks are found in the table on the following page.

Climate-related risk impact as a causal factor to other principal risks will be regularly reassessed and managed through the annual refresh of the enterprise-wide risk management framework and its individual components.

Details of how climate risk has been sized and scoped for each of the relatively significant principal risks, and how frameworks have been improved in response, can be found throughout this section of this report.

Climate change is also considered as part of NatWest Group's top threats framework, for further details see the risk overview section of the 2022 NatWest Group plc Annual Report and Accounts.



⁽¹⁾ Definitions of principal risks can be found in risk and capital management section of the 2022 NatWest Group plc Annual Report and Accounts.



Our processes for identifying and assessing climate-related risk continued

This table provides highlights of key progress and priorities for the principal risks with relatively significant impacts from climate risk. To provide comprehensive assessment of risks to NatWest Group's strategy, scenario analysis has been used to assess the impacts to the following principal risks: credit risk, operational risk, pension risk, market risk, liquidity and funding risk and capital risk – see section 4.2a. While climate change has the potential to pose significant risks, it also offers NatWest Group a range of opportunities to support customer transition to net zero. For details of our climate-related opportunities, see section 3.1 of this report.

Climate impact on principal risk	Climate drivers	Horizon	Progress to date (enhancements in 2022 are in bold)	Next steps
Credit risk Adverse impact upon future credit worthiness of customers due to climate change risk factors impacting asset valuation, income, and costs.	 	Medium – Long	<ul style="list-style-type: none"> Completed the development and launch of qualitative climate risk scorecards, which now cover approximately 90% of wholesale Exposure at Default⁽¹⁾. Work commenced to develop and pilot a more quantitative and automated climate risk scorecard, incorporating scenario analysis and the customer transition plan assessment (CTPA) - see section 3.6 for further details. Established an increasingly quantitative methodology for the identification and assessment of heightened climate-related risk sectors and subsectors. Enhanced assessment of transition and physical climate-related risk impacting commercial real estate and the residential mortgage portfolio. Climate-related operational limits have been established and are monitored within the residential mortgage portfolio. 	<ul style="list-style-type: none"> Qualitative climate risk scorecard review and recalibration activity. Continued development and launch of a more quantitative climate risk scorecard. Increased utilisation of heightened climate-related risk sector outputs in frameworks and tools. Application of climate-informed limits reflecting risk profile and transition plans.
Operational risk Increased likelihood, and potential impact of business disruption events, and/or those arising from new and changing policy standards.	 	Short – Medium – Long	<ul style="list-style-type: none"> Non-financial risk scenarios were conducted during 2020 and 2021 covering flood and extreme heat events. Financial and customers impacts from business disruption were assessed as not significant due to adequate existing recovery controls. Enhanced control environment supporting climate-related financial and non-financial disclosures. Ensured application of NatWest Group data management control standards on sourced climate-related data. Ongoing enhancements to Risk and Control Self-Assessment guidance and Change Impact Assessments to include climate risk considerations. 	<ul style="list-style-type: none"> Continue to enhance and monitor process and control standards to support developing non-financial data and reporting. Continued oversight of climate data controls. Ongoing consideration of the approach and frequency of scenario exercises considering climate-related risks.
Conduct risk Customer detriment arising from the impacts of climate change including changes to financial stability or general wellbeing, which will either be supported or exacerbated by NatWest Group's conduct.		Short – Medium – Long	<ul style="list-style-type: none"> Evaluation of non-financial risk scenario relating to greenwashing – see page 62. Product risk standards reviewed to ensure adequate inclusion of climate-related risk drivers. Consideration of climate-related risk factors in development of updated operational policies to support management relating to product design and customers in vulnerable situations. Product governance processes enhanced to include climate risk considerations. 	<ul style="list-style-type: none"> Review control standards relative to the non-financial risk scenario.
Reputational risk Risk of damage to NatWest Group's reputation arising from perceived impact on climate change or adequacy of actions taken in response when compared against ambitions and progress made by peers.	 	Short – Medium – Long	<ul style="list-style-type: none"> Reviewed Risk Acceptance Criteria, where applicable, for sectors exposed to heightened climate-related risk e.g., oil and gas during 2022 and with further updates in 2023, see page 41. Environmental, Social and Ethical sector reviews completed for all sectors exposed to heightened climate risk. 	<ul style="list-style-type: none"> Continued evolution and monitoring of Environmental, Social and Ethical Risk Acceptance Criteria in accordance with framework.
Regulatory compliance risk Specific regulatory expectations associated with climate risk to support regulatory requirements.		Short – Medium – Long	<ul style="list-style-type: none"> NatWest Group regularly considers existing and emerging regulatory requirements, related to climate change, for example Dear CEO and Dear CFO letters and IFRS9 assessment, with updates reviewed regularly by the Executive Steering Group. External horizon scanning and monitoring of emerging regulatory requirements is completed by Legal, Governance and Regulatory Affairs. Climate-related regulatory requirements are captured within strategic rules mapping tool. 	<ul style="list-style-type: none"> Maintain response to emerging regulatory requirements.

(1) Excludes Sovereign exposure, where we apply the Country Climate Change Vulnerability Index to assess the level of climate risk, and Central items relating to liquidity management activities.



Our processes for identifying and assessing climate-related risk continued

NatWest Group's climate risk policy and defined maturity standards were reviewed during 2022 and enhanced to ensure that it continues to accurately reflect the risk management principles which NatWest Group is aiming to achieve to manage climate-related risk effectively. In line with policy, NatWest Group seeks to effectively identify and assess climate-related risks through three principles:

1. Undertaking scenario analysis to understand the potential impacts of climate-related risks

We conducted a range of scenario analyses during 2022:

- CBES
- Conduct risk
- Pension risk
- Market risk
- Capital risk
- Liquidity and funding risk.

We have continued to develop our internal scenario analysis capabilities to reduce dependence on third-party models.

Details of this and our broader scenario analysis work can be found in section 4.2a

2. Identifying segments of our portfolio and operations with heightened climate-related risk exposure

We have developed an increasingly quantitative methodology to consistently identify and assess sectors and subsectors exposed to heightened climate-related risk.

- During 2022, a granular review of climate-related risk exposure was completed at a subsector level, reflecting the variability of subsector exposure to climate-related risk within a sector.
- The quantitative subsector level outputs from climate scenario analysis form the foundations of the methodology. For the latest assessment, the No Additional Action and Late Action scenarios used in our internal scenario analysis, carried out to support participation in the CBES exercise, were the starting point to assess subsector exposure to physical risk and transitional risk respectively. For descriptions of these scenarios [see page 59](#).
- Other climate data available to NatWest Group was then applied to provide additional insight of physical and transition risk exposure. These additional data considerations include external sector transition risk assessments and supply chain dependencies on trade with countries subject to physical risks. We also considered the financed emissions rate for the subsector.
- This approach identified 44 subsectors exposed to **heightened climate-related risk**, increasing to 47 within 17 wholesale sectors, following a qualitative overlay applied by internal subject matter experts.
- The development of this enhanced, granular view of climate-related risk exposure at subsector level creates potential for more robust consideration of climate-related risk during customer decisioning processes.
- Note, underlying exposures for leveraged funds and securitisations are generally diversified, and as such we look to manage any climate-related risks at client level, rather than classifying entire sectors as exposed to **heightened climate-related risk**. In addition, securitisations are primarily managed as an asset class within NatWest Group, rather than via sector frameworks. As a result, leveraged fund and securitisations were excluded from our assessment.
- [See section 5.1](#) for further details of lending exposure to sectors and subsectors identified as heightened.

We periodically assess the exposure of the Retail Banking mortgage portfolio to both transition and physical climate-related risks

- Throughout the year we have monitored EPC ratings and the insurance risk of properties we finance separately for owner occupied and buy-to-let properties, as well as for new business and overall cumulative mortgage lending.
- We have used the outputs of scenario analysis – [see section 4.2a](#), along with regulatory feedback to evaluate the data monitored to identify trends and assess the need for further mitigating actions.
- Through engaging with external commercial suppliers, we have enhanced our data using digital EPCs and are assessing the use of this data for use where EPC data has not been gathered, either through new business with customers or from the government EPC register.

3. Assessing individual customer's and supplier's climate-related risk exposure

We use climate risk scorecards to provide a consistent and structured approach for assessing customer-specific exposure to climate-related risks.

- Having launched initial qualitative **climate risk scorecards** in 2021, during 2022 we rolled out additional scorecards across the wholesale portfolio aligned to underlying PD models. Qualitative scorecards now cover approximately 90% of the wholesale Exposure at Default⁽¹⁾.
- The insights generated by the qualitative scorecards allow us to better assess climate-related risks and potential opportunities to support transition, at both a wholesale portfolio and individual wholesale customer level. To support this, a visualisation tool for use by colleagues in interpreting the scorecard data outputs has been developed in 2022. This is the starting point to allow us to identify, assess and manage climate-related risk and to provide the right support to customers. While current capabilities do not yet impact internal ratings based (IRB) credit metrics, this capability development is part of a multi-year journey to mature our approach to climate risk management.
- In parallel with the roll-out of qualitative **climate risk scorecards**, over 2022 the Group has started to develop a more quantitative and automated **climate risk scorecard** methodology. This approach takes the insights from the development and implementation of the initial suite of scorecards and builds upon this by making better use of existing climate risk analytics capabilities e.g., climate risk scenario analysis.
- The outputs continue to be a relative, rather than absolute, measure of physical and transition risk. The methodology intends to separately assesses the inherent level of climate-related risk a customer may face and considers their ability to mitigate and adapt. For example, the design of the **climate risk scorecard** looks to incorporate the outputs of the Customer Transition Plan Assessment to assess transition risk mitigation – [see section 3.6](#).
- From 2023 NatWest Group will start to expand the methodology across the majority of the wholesale portfolio and once fully developed, we aim for it to be used within credit decisioning.

We have conducted sustainability assessments on our suppliers

- The [NatWest Group Supplier Charter](#) sets out our aims and expectations against core ESG pillars, including climate. The charter is covered in our tender process and is a standing agenda item at supplier meetings and as part of ongoing contract management.
- Carbon emissions within our supply chain present a risk to NatWest Group meeting its climate commitments, and equally, decarbonisation has the potential to reduce supply chain exposure to transition risks meaning suppliers remain competitive and resilient. Details of how we monitor this can be found in [section 5.4](#).
- To manage the risk, we are initiating work to understand supplier capability to transition to net zero and identify where support is required to progress. This forms part of a multi-year journey working in partnership with our suppliers. This will include providing resources to help build the capability they need to measure and report their own emissions. This data will enable us to monitor the climate impact of our own operational value chain, and to identify any vulnerabilities in our supply chain which could impact resilience and our net zero ambition.

(1) Excludes Sovereign exposure, where we apply the Country Climate Change Vulnerability Index to assess the level of climate risk, and Central Items relating to liquidity management activities.



4.2a

Scenario Analysis

Climate scenario analysis is a critical tool to support the identification of climate-related opportunities, management of climate-related risks and understanding of the impact that climate change could have on NatWest Group, the wider economy and society.

The resilience of NatWest Group's strategy, taking into consideration different climate-related scenarios

During 2022, we continued to develop our internal scenario analysis tools and core strategic climate risk modelling capabilities to embed within our existing risk management processes. This builds on our work in 2021 and 2022, in running our internal scenario analysis for participation in the Bank of England's CBES exercise, using a combination of our internal models and third-party models. This work allowed us to assess our exposure to climate-related risk across our lending book and provided insights which we continue to incorporate within our climate strategy and used to inform work on the initial iteration of our Climate transition plan.

One of the key lessons from this work is that while climate-related risks could potentially amplify other risk drivers, for example resulting in effects such as the erosion of competitiveness, profitability, or reputational damage, overall NatWest Group is resilient to these risks, within the context of the scenarios tested. We will continue to monitor and manage this through our enterprise-wide risk management framework. This is consistent with the PRA's aggregate findings from the CBES exercise, published in July 2022, and justifies our continued focus on the measurement, management, and monitoring of climate-related risks.

A priority area of focus for NatWest Group in 2022 has been the continued enhancement of how we incorporate climate risk into our capital adequacy assessment process (ICAAP) and strategic planning process. This ensures that we have sufficient capital for the most material source of climate-related risk over the capital planning horizon. This analysis complements the longer-term analysis carried out for the CBES and other internal scenario analysis, to give us a view on NatWest Group's overall resilience to climate-related risks on a short (<5 years) and medium-to-long term (5-30 year) horizon. In 2022, we also conducted scenario analysis on other principal risks including market risk, liquidity risk, conduct risk and pension risk, which is outlined later in this section. NatWest Group continues to expand and enhance its use of climate risk scenario analysis and we recognise that this is a multi-year journey to full maturity, with models and methodologies being refined as best practice evolves and data improves.

In this section we focus on the key developments and achievements in our scenario analysis capability build in 2022 and the key regulatory and internal use cases which drive our focus.

NatWest Group recognises a number of key use cases for climate scenario analysis.

These include supporting strategic decision-making via our planning processes and supporting customer level decisions via risk management across the customer lifecycle process. Scenario analysis use cases continue to develop across risk management practices through portfolio management and sector and subsector risk appetite, as well as identifying opportunities to support customers through products and pricing. Climate risk is also now an important part of the regulatory stress testing toolkit.

NatWest Group is continuing to make progress in embedding climate risk analytics as appropriate across customer journeys and in supporting decision-making at customer and strategic portfolio levels.

In response to internal use cases and 2022 regulatory feedback and guidance, NatWest Group has focused on development of scenarios, modelling infrastructure and data to meet our current and potential requirements for

modelling the impacts of climate-related risk. Scenario analysis is a central part of how we monitor and manage our risk profile and our aim is to use analytics to support decision-making at both customer and strategic portfolio levels, recognising this will take several years to fully mature as models, methodologies and data evolve. We are actively developing 'in-house' modelling capabilities to reduce reliance on third-party models, while retaining specialist input to ensure NatWest Group is at the forefront of the evolving discipline of climate risk management. In addition to the **Transition Risk Calculator** - see page 31, in 2022, our focus has been on:

Corporate transition risk counterparty modelling:

We commenced the build of a flexible, internal, corporate transition risk modelling capability to:

- Provide inputs to our **heightened climate-related risk sectors** selection process, **climate risk scorecards**, and other future internal use cases.
- Meet future regulatory stress testing requirements.
- Reduce our reliance on third-party modelling providers and incorporate best practices identified during the CBES exercise.

We intend to implement these models during 2023, with planned scenario analysis to be executed to support internal use cases and model assurance.

Sectoral scenario modelling: In 2022, NatWest Group also developed commercial and corporate probability of default models that provide insights on the impact of climate-related transition risk at a sector level using our corporate **Transition Risk Calculator** as inputs. In 2023, we intend to use this modelling approach for:

- **ICAAP:** Our 2021 ICAAP assessment included a forward-looking view of our capital adequacy under a scenario leveraging the CBES Late Action scenario, featuring a disruptive transition. Our approach will be enhanced for the 2022 ICAAP exercise to utilise our sectoral scenario modelling to embed transition risk within the macroeconomic variables. This will help capture the risk where we are exposed to sectors expected to be impacted more by climate-related transition risk.
- **IFRS9:** The **Transition Risk Calculator** gives us the capability to translate a forward view of climate policy into sector level macroeconomic impacts. In 2022, we enhanced our capabilities to incorporate this into our IFRS9 processes. As covered in more detail on page 306 of the 2022 NatWest Group plc Annual Report and Accounts, we expect to finalise our review and incorporate this into the Expected Credit Loss (ECL) calculation in 2023, once further testing and checks are completed. A key part of this is determining that any adjustment resulting from the inclusion of new climate-related inputs does not double count or omit credit losses arising from other inputs.

If we had applied this information as at 31 December 2022 it would have resulted in a potential increase in ECL of less than £25 million. We expect that the effect of climate costs on ECL will increase as government policy, organisations and individuals react to changes in climate as well as the probable increased occurrence of climate-related loss events, such as flooding and wildfire.

- **Strategic planning:** Using our sectoral scenario modelling, we plan to integrate our central view on the evolution of climate transition policy over the planning horizon within the core macroeconomic scenarios used as part of our annual financial planning process.

Embedding climate in customer and portfolio decision-making: Climate risk scenario analysis gives us detailed insights into the distribution of physical and transition climate-related risk across, and within, sectors. To support integration of climate scenario outcomes into customer-level risk management and decision-making, we have incorporated these within the process to identify **heightened climate-related risk sectors** - see sections 4.2 and 5.1, and the assessment of customer-level climate-related risk through **climate risk scorecards** - see sections 3.6 and 4.2.

Physical risk and real asset modelling: In 2022, we began the development of our in-house physical risk and real asset modelling capabilities, which we expect to complete in 2023. While these models are developed, we retain the capability to use our existing physical climate risk scenario analytics to support risk management and decision-making in these areas, for example in the **Transition Risk Calculator**.



Scenario Analysis continued

Insights from climate risk scenario analysis that informed our work in 2022

Our internal climate scenario analysis, carried out to support participation in the CBES exercise, considered projected credit losses for three climate pathways over a 30-year time horizon (2021-2050) under a static balance sheet assumption. The scenarios, which are detailed in the table below, were all assessed against a hypothetical counterfactual scenario, that assumes transition and physical risk remain constant at current levels. The counterfactual is a hypothetical reference point to assess the increase in climate-related risk over the three main scenarios. This work was a critical step in understanding the potential impacts of climate change on NatWest Group, assessing our resilience, and developing our climate scenario analysis and climate risk management capabilities.

Early Action	Late Action
Assumes that stringent climate policies and innovation start immediately in 2021.	Assumes that strong climate policies successfully limit warming.
<ul style="list-style-type: none"> Therefore, the increase in global temperature is limited to under 2.0°C by 2050. Carbon prices increase steadily over the period from 2021 to 2050, which drives significant decarbonisation. As a result, global CO₂ emissions reach net zero around 2050, and some jurisdictions such as the US, EU, UK, and Japan reach net zero for all greenhouse gases. 	<ul style="list-style-type: none"> Therefore, the increase in global temperature is limited to under 2.0°C by 2100. However, in the Late Action scenario, decisive policy action on climate is delayed until 2031. Rapid and disorderly transition leads to a recession in the early 2030s. Carbon prices increase rapidly from 2031 to 2050, and this is enough to achieve significant reductions in emissions: global greenhouse gas emissions fall by 80% between 2030 and 2050 in this scenario.
No Additional Action	
Explores physical risks from climate change and assumes that there are no further climate policies introduced beyond those already implemented.	
<ul style="list-style-type: none"> The absence of transition policies and associated emissions reduction leads to an increase in the concentration of greenhouse gases in the atmosphere, resulting in an expected increase in global temperatures of over 3°C by 2050 and increased physical risks. To test more severe physical risks, this scenario accelerates the temperature pathway by 30 years, and is based on the 90th percentile of the projected distribution of warming outcomes implied by climate models. As a result, the frequency and severity of extreme weather events such as flooding and tropical cyclones increases, and there are chronic changes in labour and land productivity. 	

Outcomes

In light of the limitations included below, the initial results from our climate scenario analysis should mainly be used to understand the relative differences between scenarios, rather than the absolute level of modelled impairments. These results should not be interpreted as forecasts of expected losses over the scenario period.

Under the three hypothetical scenarios, NatWest Group is most exposed under the Late Action scenario with less than £10 billion of potential cumulative losses above the counterfactual scenario to 2050. Approximately two thirds of these estimated losses could potentially crystallise between 2030 and 2035, the point at which disruptive transition policy is implemented, resulting in a material increase in transition risk and an economic recession. The majority of forecasted losses relate to corporate lending. A key conclusion for transition risk is that supporting our customers transition to net zero is critical to managing our exposure to transition risk but achieving transition is subject to key dependencies as set out in [section 3.4](#).

The impacts of physical risk were explored through the No Additional Action scenario, producing lower cumulative impairments such that the margin above the counterfactual scenario was about one quarter of those seen in the Late Action scenario. This comparatively lower level of estimated impairments versus transition risk scenarios is reflective of NatWest Group's diversified lending profile across sectors, primarily located in the UK and hence expected to be less exposed relative to other regions, although note the limitations highlighted below.

Modelling Limitations

There are several key limitations which should be considered when looking at the results. These were covered in detail in the [2021 Climate-related Disclosures Report](#) and we are working to address these key challenges.

In light of these limitations and building on the learnings and insights from this analysis, we have developed enhanced methodologies to incorporate climate-related risks into ECL and capital adequacy assessments - see page 58.

Physical risk: We recognise that the No Additional Action scenario does not fully capture the severe long-term impacts of irreversible climate change. Modelling the impact of physical risk poses material challenges and limitations in comparison to transition risk. Particular challenges persist around data and location of customer assets, combined with the complexity of modelling physical risk perils and their interaction with global and local supply chains. We continue to refine and enhance our physical risk modelling capabilities, in particular focusing on 'event based' analysis to test resilience to severe weather events in the near-term. Modelled losses in this analysis, although directionally insightful for risk management, must be treated with caution when assessed in absolute terms due to these data and model limitations.



Scenario Analysis continued

Wholesale transition risk insights

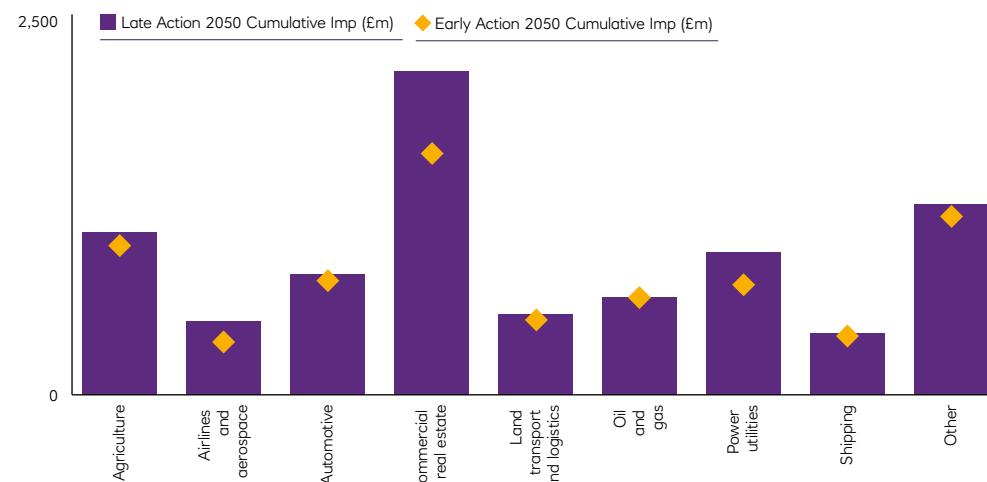
Early Action and Late Action outcomes

For the context of this section, NatWest Groups [2021 Climate-related Disclosure Report](#) details the Group's wholesale transition risk methodology.

A key outcome from our internal climate scenario analysis, carried out to support participation in the CBES exercise, is that transition risk is concentrated in specific sectors, with a variance in the risk profile for different subsectors or customers within a sector. Our analysis suggested that 12 sectors were particularly sensitive to the transition to net zero under the Late Action scenario. Transition risk has the potential to impact the credit worthiness of customers in these sectors. However, customers with advanced transition actions and low carbon revenues at present, could potentially take advantage of increasing demand for low carbon goods and services to compete for market share at the expense of customers with a greater emissions intensity, who could experience declining demand for goods and services, and loss of market share. This supported NatWest Group's climate ambition and strategy, which is based on supporting customers' transition with a particular focus on those sectors most sensitive to transition risk, and on improving emissions data and analytic capabilities to track customers' transition progress. During 2022, we prioritised these sectors for developing the initial iteration of our Climate transition plan.

The graph below provides details on potential cumulative impairments across the Early Action and Late Action scenarios for selected sectors. This shows that impairments are higher in the Late Action scenario across the majority of the sectors. This is due to the Late Action scenario assuming a recession at the onset of transition policy in 2030, which is not a feature in the Early Action scenario, and a higher final carbon price than in the Early Action scenario. Our modelling also found the greatest in-sector variation in the power and utilities sector, with low carbon utilities benefiting more from the transition of the energy system to renewable electricity in the Early Action and Late Action scenarios, while high carbon utilities face material profit impacts once carbon pricing is introduced. This highlights the importance of customer level analysis when assessing transition and physical risks. We used this analysis as the starting point for our internal assessment of heightened climate-related risk sectors and subsectors. All 12 of the sectors identified as sensitive to the transition to net zero, are considered heightened climate-related risk sectors based on the latest assessment. For further details see section 5.1.

Early Action and Late Action Cumulative Impairments by Sector (£m)



Note: Other contains the following sectors: water and waste, mining and metals, construction, and buildings materials

Retail transition risk findings

Early Action and Late Action outcomes

Our modelling showed Retail Mortgages are most exposed to transition risk at property level, where homes that are less energy efficient are expected to be impacted by increasing energy costs, minimum EPC requirements and could also bear the costs of switching from natural gas to electric heating.

This analysis was carried out before the current energy crisis and does not reflect the current high cost of gas and electricity (electricity being linked to gas prices as the marginal cost of generation) and government consumer support. It is therefore likely the economic impact of the scenarios could be more severe if applied on top of the currently elevated energy prices. This supports our conclusion that climate risk could amplify other risk types, e.g. credit risk.





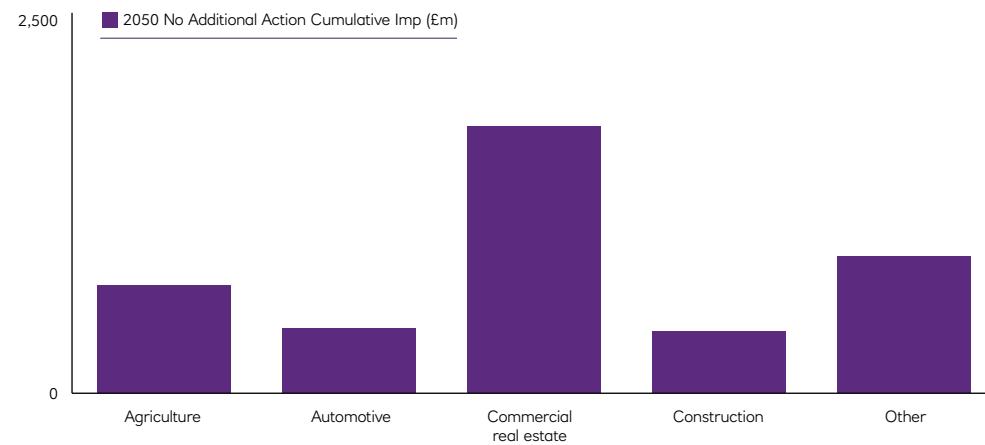
Scenario Analysis continued

Wholesale physical risk insights

Physical risk outcomes (No Additional Action scenario):

The graph below provides details on potential cumulative impairments in the No Additional Action scenario for selected sectors. When compared to the graph on the previous page, this shows that in all sectors the No Additional Action scenario produced impairments that are less severe relative to the Early Action and Late Action transition risk scenarios. Agriculture and commercial real estate saw the largest impact from the No Additional Action scenario relative to the counterfactual, this was driven by the assumed slower growth in property values in the macroeconomic assumptions, and chronic physical risk impacts.

No Additional Action Cumulative Impairments by Sector (£m)



Note: Other contains the following sectors: oil and gas, power utilities, industrials and land transport and logistics.

The geographic concentration of NatWest Group's book, primarily in the UK, is expected to limit the overall exposure to physical risks over the projection period, relative to other regions. However, it is important to note that the No Additional Action scenario does not capture the severe implications of unmitigated climate change. For example, increased geopolitical risk, migration, and severe disruption to global supply chains. In addition, there are known challenges and limitations with the methodology, which NatWest Group is looking to address, for example through event-based physical risk analysis.

Retail physical risk insights

Physical risk outcomes (No Additional Action scenario):

For residential mortgage exposures, flooding is the key direct physical risk and is focused on specific geographic locations. While NatWest Group modelled higher flood risk in Scotland and Wales, NatWest Group's exposure profile resulted in the greatest impairment rates in the South East and West of England. Overall, for NatWest Group's residential mortgage portfolio, the proportion of properties at high and very high risk is relatively low at 3.0% – [see section 5.2](#). However, the No Additional Action scenario also impacted the entire portfolio through assumed slower economic growth and slower house price growth at a national level when compared to the counterfactual scenario.

In the No Additional Action scenario, we observed that the impact on property values at a portfolio level is minimal. However, although a small proportion of the portfolio is in high flood risk banding, these properties incur significant impairments. This is particularly notable for properties currently protected by [Flood Re](#) as these properties see significant increases in risk as Flood Re is expected to exit the market in 2039. As previously noted, we continue to develop our physical risk modelling and data, including exploring physical perils beyond flood and subsidence.

In 2022 we conducted high level research on the macroeconomic impact of severe global physical events (acute physical risk) and concluded they were less material in the short-term for our portfolio than potential transition effects, hence prioritising the development of our [Transition Risk Calculator](#). Nevertheless, physical risk remains an important focus area and we are continuing our analysis with the view to overcome the data challenges and incorporate the effects explicitly in the macroeconomic scenarios.

In conclusion, our climate scenario analysis carried out to support our participation in the CBES exercise has provided useful insights that we incorporated in our work on developing the first iteration of our Climate transition plan, as well as the identification of heightened climate-related risk sectors. The conclusions support NatWest Group's climate ambition set in 2020, to support customer transition, and provided input in our ambition updates announced in February 2023. During 2023, we will continue to develop our climate scenario analysis capabilities to embed into climate risk management.





Scenario Analysis continued

This section explores how NatWest Group is incorporating climate scenario analysis in other principal risks.

Building on existing work to enhance scenario analysis conducted in 2021, we have used scenario analysis to assess climate risk impact on the following risks:

Conduct Risk

In 2022 NatWest Group conducted an exercise exploring a hypothetical scenario where increased competition in the green finance market leads to ambitious product designs and diminished robustness of governance. The exercise demonstrated the complexity of defining what constitutes greenwashing and the importance of maintaining effective controls in an increasingly competitive market. NatWest Group continues to review current policies, processes, and controls to ensure the risk of greenwashing is adequately addressed in our frameworks.

The outcomes resulted in a potential financial impact of less than £70 million in the 1-in-25 year scenario and less than £315 million in the 1-in-100 year scenario.

Operational Risk

We conducted operational risk scenarios in relation to physical risk in 2020 and [2021](#).

The outcomes resulted in a potential financial impact of less than £1 million in the 1-in-25 year scenario and less than £20 million in the 1-in-100 year scenario.

Pension Risk

In 2022, we explored the resilience of our main defined benefit pension scheme to climate-related risks, [utilising the scenarios described on page 59](#). The pension scheme was resilient to the scenarios as a result of its strong funding position and limited exposure to high climate risk assets and geographies.

In addition, we are actively engaged with the Trustees of the pension scheme and their advisers, which provides an understanding of their approach to managing the impact of climate change on NatWest Group's schemes. See the Trustee's [2022 TCFD Report](#) for further detail on the approach taken by the Trustee of NatWest Group's largest scheme.

Market Risk

Climate change has the potential to affect all market risk factors that NatWest Group is exposed to. Climate regulatory guidance is in its infancy for traded market risk. However, NatWest Group is enhancing its climate market risk framework and building climate into scenario analysis and risk appetite. In 2022 a first-generation short-term climate transition stress test was developed.

The scenario assessed the impact of a disorderly transition to a low-carbon economy on fair-valued positions. It explores hypothetical EU and UK regulation mandating firms to reduce carbon emissions across all scopes by 50% by 2030, with a government carbon tax from 2025. These shocks are applied instantaneously across the issuer and counterparty credit spread risks in the trading book. Scenarios are expected to be refined further as improved data becomes available.

As regulatory guidance develops, NatWest Group will continue to develop a range of key metrics and internal reporting tools to assess and monitor climate-related risks and opportunities.

Liquidity Risk

A climate-specific liquidity scenario was developed to assess the impact of an acute physical event on the liquidity position of NatWest Group.

The scenario focuses on a major flood-related event to the UK and Northern Europe with widespread disruption and a temporary fall in economic output.

The disruption results in higher demand for cash from certain impacted business sectors due to the uncertainty. Volatility in financial markets impacts GBP, UK bonds and asset prices. Non-UK and European depositors re-evaluate their exposure to the UK and European financial sector.

Managing climate-related model risks

Climate risk considerations have resulted in increased materiality and complexity for models, with challenges presented by the availability of data and lack of benchmarking options. A model risk review for sector-specific emission models was conducted in 2022, in accordance with model risk policy requirements. This included an assessment of materiality and independent validation across various model dimensions.



Developing industry best practice and framework development

Climate scenario analysis is already producing useful insights to help identify and develop strategies to manage the impacts from climate change. However, NatWest Group recognises that climate scenario analytics is a new specialism for the industry. Analytics and integration with business operations is continuously improving on what is a multi-year journey towards full maturity, with prioritisation on the most material risks and exposures relevant to NatWest Group. Regulatory expectations continue to increase at pace, with a Dear CEO Letter providing thematic feedback on the PRA's supervision of climate-related financial risk and the CBES exercise, and a Dear CFO letter covering impact assessment of climate risks on balance sheet valuations in 2022.

The challenges and limitations, as noted within this section and in previous disclosures remain prevalent to both NatWest Group and the wider industry. NatWest Group is participating in a number of industry initiatives to contribute to creating solutions to limitations through, for example, participation in the Climate Financial Risk Forum (CFRF); Global Financial Markets Association climate data initiative; Bank of England conference on the treatment of climate risk within the regulatory capital framework; and other climate risk initiatives. There is close alignment and integration of these initiatives with our risk and governance frameworks, risk appetite and development of management information with a clear trajectory for enhancement towards the full maturity of our climate scenario analysis capabilities.



4.3

Managing our exposure to climate-related risk

The effective management of climate risk requires the full integration of climate-related risk factors into strategic planning, transactions, and decision-making. This section details the enhancements which have been made to our processes for managing climate-related risk to date, and those which will continue to evolve and improve as the organisation matures its climate risk management capabilities.

Enhancing wholesale credit applications to consider climate risk

In line with our ambition to at least halve the climate impact of our financing activity by 2030 and support our wholesale customers' transition to net zero, during 2022, we evolved the inclusion of climate-related considerations within our credit assessment processes.

Transaction Acceptance Standards (TAS) continue to be informed by climate-related risk factors and are subject to periodic review. The intention is to use insights from heightened climate-related risk sector reviews to inform acceptance standards, as they evolve and where appropriate, ensuring we capture both risks and opportunities.

Improvements have been made in the understanding of potential climate-related risk factors affecting customers, including:

- Further analysis of minimum energy efficiency standards.
- Expanding the scope of our flood risk assessment to include five and 30-year scenarios.
- Enhancing flood risk insight, modelling additional physical factors such as rising sea levels, and broadened scope to include subsidence risk, as appropriate.

Credit assessment processes have been improved to better support customer interactions, including:

- We have mandatory climate conversations with in-scope⁽¹⁾ customers. These conversations reflect the specificity of sector and asset class, and the size and sophistication of these customers.
- The **climate scorecards described in section 4.2** are utilised, where applicable, to support these conversations and the outcomes are captured within the credit assessment process.
- To support our conversations with customers, enhancements have been made to guidance materials including the climate Transaction Acceptance Standards (TAS) handbook.
- Role-specific learning rolled out to colleagues – **see page 64**

(1) Guidance on in scope customers is tailored to each business area and detailed in the Climate TAS Handbook. For example, for Business Banking Relationship Managers the criteria is - new or increased lending applications of £50,000 or more.

Updating our criteria for decision-making and limiting concentration risk

In 2022 we launched preliminary shadow operational limits supported by EPC and flood risk data. The three limits do not currently influence lending decisions, rather they are used to monitor the performance of the current Retail Banking mortgage portfolio and new mortgage business, focusing on transition risk through EPCs and the physical risk of flood, as follows:

EPC A and B properties	Minimum EPCs for buy-to-let properties	Flats, new builds, and buy-to-let properties at high or very high risk of flood.
<ul style="list-style-type: none"> • A shadow operational limit was introduced to track lending to properties with an EPC of A or B. • This means that we can proactively monitor and manage climate-related risk to the residential mortgage portfolio. • It also allows us to monitor our ambition that 50% of our UK mortgage portfolio has an EPC rating of C or better by 2030. 	<ul style="list-style-type: none"> • Through our monitoring of emerging regulations and legislation we anticipate changes which will require a minimum EPC of C for buy-to-let properties from 2028. • In light of this, a shadow operational limit to monitor our exposure to buy-to-let properties without the potential to reach an EPC of C was introduced in 2022. 	<ul style="list-style-type: none"> • A shadow operational limit was introduced to monitor Retail Banking mortgage portfolio exposure to properties ineligible for the <u>Flood Re</u> scheme. • Backed by the government and in place until 2039, FloodRe enables customers whose home is in a high or very high flood risk area to obtain affordable buildings insurance. • Some properties are ineligible, including flats, buy-to-let properties and any property built since 2010. • The limit is designed to bring our exposure to ineligible properties in higher flood risk areas in line with the overall portfolio. • At 31 December 2022, 39% of properties in our mortgage portfolio at high and very high risk of flood are ineligible for FloodRe, compared with 32% ineligible across the total portfolio.

We are applying operational limits in full in 2023, with timely remedial action required for limit breaches. Consideration of how these limits impact our customer journeys will continue.



Managing our exposure to climate-related risk continued



How **climate education** supports our people to have the right capabilities

Developing the capabilities and skills of our people is a principle of the NatWest Group's climate risk policy. We recognise that gaps and limitations in climate expertise and capabilities could ultimately inhibit our ability to effectively manage climate risk.

The education policy principle recognises that colleague capability to understand climate-related risk supports effective:

- Identification and assessment of potential climate-related risk.
- Customer engagement and decision-making with respect to climate-related risks.
- Monitoring of climate-related risk factors and evaluating their impact.

To meet our aims of having appropriate climate-related risk training identified and available for all relevant colleagues, with take-up monitored, by the end of 2024, we need to evolve our climate model from a self-serve approach to a role mapping approach to ensure key populations across the bank have the necessary and relevant training to support their role, focused at three different levels of climate-related risk training:

- Core – All colleagues understand what climate change is and are aware of the impacts and risk associated with climate change.
- Common – Priority roles have a deeper understanding of climate-related risks and how to identify, assess and manage risk.
- Technical – Technical business-specific training and professional qualifications for specialist roles.

Technical

Technical training and thought leadership delivered locally by the business

Technical

Including professional qualifications such as Green and Sustainable Finance and Climate Risk through the Chartered Banker Institute

Core and Common

Developed at a One Bank level through University of Edinburgh partnership (including bespoke programmes)

Common

Role-specific learning – pathways for priority roles

Core

Climate Fundamentals – c.64,000 colleagues bank wide

Further information about our approach to climate education is found in sections 2.2 and 3.5.



Managing our exposure to climate-related risk continued

Managing climate risk within our Assets under Management

The principles of the NatWest Group climate risk policy are applicable across all portfolios, and products. During 2022 we enhanced our due diligence and investment processes to reflect our ambition to achieve net zero emissions across our in-scope Assets under Management by 2050. The following processes support the identification, assessment, and management of climate-related risks in our asset management investment products:

ESG due diligence process for funds: Our fund due diligence process incorporates our responsible investing framework and employs multiple indicators to assess underlying funds on three levels: Firm approach, Investment Strategy and Stewardship.

All third-party funds are required to complete our responsible investing questionnaire. This data informs our ESG assessment and results in a responsible investing score, which feeds into our overall fund assessment. It also forms the basis of our engagement with fund managers.

Assessing net zero alignment: to manage our exposure to climate-related risk in our investment products we assess the extent to which third-party funds have a commitment and investment strategy that is aligned to net zero.

- We have designed our Net Zero Investment Framework, which uses qualitative and quantitative data sourced from fund managers, to assess the credibility of their net zero strategy and commitments.
- All in-scope AuM are assigned a net zero score, and those which have a net zero strategy deemed credible are counted towards our Portfolio Alignment metric, which measures the percentage of underlying holdings that we deem to be on a net-zero trajectory.

Monitoring of climate-related metrics: In addition to the responsible investing score and the net zero score we also incorporate carbon intensity into our fund-level pre-trade analysis - [refer to section 1.3 for further detail](#). The overall climate risk exposure of our in-scope AuM is monitored periodically throughout our investment process.

Managing climate-related risks across Asset Management: In addition to the enhancements made to the investment process we have also integrated climate risk into our Asset Management business risk processes. For example, in 2022 we set out ESG-related controls to enhance our oversight and confidence in our climate-related data. Asset Management also feeds into the NatWest Group-wide scenario analysis exercises to enhance our overall approach to climate-related risk.





5

Metrics and targets

The metrics and targets used to assess, monitor and manage relevant climate-related risks and opportunities.

In this section

- 5.1 Heightened climate-related risk exposure
- 5.2 UK residential mortgages – energy efficiency and flood risk assessment
- 5.3 Climate and sustainable funding and financing
- 5.4 NatWest Group's own operational footprint
- 5.5 Estimates of financed emissions
- 5.6 Estimates of facilitated emissions from corporate bond underwriting
- 5.7 Cautions about climate-related metrics, data and methodology challenges
- 5.8 Climate-related data and other forward-looking statements and metrics

Key sources of estimation uncertainty and volatility: NatWest Group's 2022 Climate-related Disclosures Report requires the application of a number of judgements, assumptions and estimates – see section 5.7 as well as notes on data limitations throughout this section.





5.1

Heightened climate-related risk exposure

The below table highlights all sectors with exposure^(1,2) classified as heightened climate-related risk. Exposure is based on loans, loan commitments and contingent obligations. As per Risk Management section 4.2, the heightened climate-related risk methodology was updated in 2022 to enable a more granular review of climate-related risk. Through this methodology, 47 subsectors within 17 wholesale sectors have been categorised as being exposed to heightened climate-related risk, as shown in the table below. Risk impacts associated with the residential mortgage portfolio are discussed in detail in sections 4.2 and 5.2, and exposure is consolidated below for completeness. The amounts reported in the below table include all lending to customers including climate and sustainable lending.

■ Physical Risks ■ Transition Risks

Sector/Portfolio	Main driver for inclusion	As at 31 December 2022 ⁽¹⁾				As at 31 December 2021 ⁽¹⁾					
		Loans ⁽¹⁾ £m	Off-balance sheet ⁽²⁾ £m	Total sector exposure £m	Of which heightened £m	Heightened as a % of NatWest Group total	Loans ⁽¹⁾ £m	Off-balance sheet ⁽²⁾ £m	Total sector exposure £m	Of which heightened £m	Heightened as a % of NatWest Group total
Wholesale heightened climate-related risk sectors		81,066	50,911	131,977	85,956	16.7	79,468	47,296	126,764	84,420	17.0
Commercial real estate	■	17,475	7,090	24,565	24,565	4.8	18,261	7,126	25,387	25,387	5.1
Housing associations	■	8,829	5,787	14,616	14,616	2.8	8,319	6,014	14,333	14,333	2.9
Power utilities	■	4,640	8,142	12,782	7,942	1.5	4,070	6,026	10,096	6,779	1.4
Construction	■	4,729	1,432	6,161	6,161	1.2	4,615	1,724	6,339	6,339	1.3
Agriculture	■ ■	4,773	992	5,765	5,765	1.1	5,084	1,017	6,101	6,101	1.2
Land transport and logistics	■ ■	5,142	3,557	8,699	4,329	0.8	4,593	3,257	7,850	3,994	0.8
Leisure	■ ■	7,463	2,009	9,472	4,108	0.8	8,102	1,981	10,083	4,189	0.8
Oil and gas	■	1,172	2,405	3,577	3,577	0.7	1,675	1,579	3,254	3,254	0.7
Building materials	■ ■	1,541	1,484	3,025	3,025	0.6	1,326	1,478	2,804	2,804	0.6
Airlines and aerospace	■	1,734	1,889	3,623	2,730	0.5	1,491	1,749	3,240	2,143	0.4
Automotive	■	7,304	4,108	11,412	2,604	0.5	6,475	3,572	10,047	1,951	0.4
Water and waste	■	3,368	2,244	5,612	1,941	0.4	2,948	1,941	4,889	1,757	0.4
Industrials	■	3,267	3,330	6,597	1,691	0.3	2,959	3,013	5,972	1,831	0.4
Mining and metals	■	408	550	958	958	0.2	382	758	1,140	1,140	0.2
Chemicals	■	502	662	1,164	1,164	0.2	399	677	1,076	1,076	0.2
Shipping	■	326	132	458	458	0.1	867	102	969	969	0.2
Retail	■	8,393	5,098	13,491	322	0.1	7,902	5,282	13,184	373	0.1
Residential mortgage portfolio	■ ■	202,957	18,782	221,739	221,739	43.1	194,011	16,827	210,838	210,838	42.4
Total NatWest Group		377,153	137,026	514,179	307,695	59.8	369,827	127,896	497,723	295,258	59.3

(*) Within the scope of EY assurance. Refer to page 10. Footnotes to this page are on the following page.

Heightened climate-related risk sector identification

- Within power utilities, heightened climate-related risk primarily relates to a proportion of the book exposed to transition risk associated with electricity generation from non-renewable sources resulting in higher emissions intensity compared with renewable sources. Transmission, distribution and supply related activities are assessed as being less exposed to transition risk as a result of having lower emission intensity.
- Heightened climate-related risk activities within land transport and logistics, and automotive sectors primarily relate to passenger road, rail and freight transport and automotive manufacturing respectively due to higher susceptibility to transition and physical risks than storage, warehousing and rental activities. The UK Government's policy to stop the sale of internal combustion engine vehicles increases the transition risk for the automotive manufacturing sector.
- Within the water and waste sector, activities at heightened climate-related risk primarily relate to the waste sector. Greenhouse gas emissions from the waste sector mainly comprise methane released from landfill sites.
- Within the industrials sector, activities related to the manufacturing of products is considered to be at heightened climate-related risk than lending related to the purchase of machinery and equipment.
- Heightened climate-related risk activities within the airlines and aerospace sector relate to lending to airlines and airline operators as emissions intensity for these activities are higher than upstream activities in the value chain resulting in higher exposure to transition risk.

- Within the leisure sector, heightened climate-related risk is related to activities which could potentially have high susceptibility to flood risk, as well as transition risk arising from changes in customer behaviour due to impacts of climate change.
- Where activities in other sectors were assessed as being aligned to heightened climate-related risk sectors and subsectors identified above, these were also classed as heightened climate-related risk.

Heightened climate-related risk exposure

- Total exposure to wholesale heightened climate-related risk sectors and portfolios increased by £1.5 billion (1.8%) during 2022. These exposures represent around 34% of total wholesale lending exposure at 31 December 2022.
- Total exposure to the oil and gas sector increased by £0.3⁽¹⁾ billion compared with 31 December 2021, primarily related to foreign exchange movements.
- As at 31 December 2022 the exposure to oil and gas majors⁽³⁾ amounted to £0.9⁽¹⁾ billion (31 December 2021 – £0.8 billion), representing 25% of the total exposure to the oil and gas sector.
- Exposure to coal customers, as defined in the Credible Transition Plan (CTP) assessment⁽³⁾ completed in 2021, was £0.3 billion as at 31 December 2022 (£0.6 billion as at 31 December 2021).



Heightened climate-related risk exposure continued

The following table provides further detail on the location, Asset Quality (AQ) and maturity profile of wholesale heightened climate-related risk sectors and the residential mortgage portfolio as of 31 December 2022.

Sector/Portfolio	Loans by geography ⁽¹⁾ £m			Loans by asset quality ⁽²⁾ £m			Loans by residual maturity £m		
	UK	Europe	RoW	AQ1-4	AQ5-9	AQ10	<1yr	1-5yr	>5yr
Wholesale heightened climate-related risk sectors	71,540	10,458	3,958	45,642	39,187	1,127	19,693	47,183	19,080
Commercial real estate	22,995	1,034	536	11,128	13,013	424	5,565	17,928	1,072
Housing associations	14,616	0	0	14,380	215	21	508	4,608	9,500
Power utilities	3,998	3,471	473	5,705	2,232	5	1,360	4,307	2,275
Construction	5,725	401	35	1,102	4,779	280	2,240	3,446	475
Agriculture	5,610	64	91	831	4,836	98	1,997	1,712	2,056
Land transport and logistics	3,718	600	11	2,694	1,578	57	1,054	2,571	704
Leisure	3,574	364	170	345	3,687	76	1,021	2,353	734
Oil and gas	2,020	1,196	361	2,287	1,230	60	1,693	1,644	240
Building materials	2,385	544	96	1,286	1,720	19	1,104	1,737	184
Airlines and aerospace	1,352	522	856	1,189	1,523	18	227	1,924	579
Automotive	780	1,281	543	1,951	648	5	506	2,078	20
Water and waste	1,721	220	0	648	1,286	7	389	779	773
Industrials	1,464	184	43	665	1,004	22	821	728	142
Mining and metals	411	29	518	618	334	6	698	234	26
Chemicals	671	392	101	603	560	1	356	776	32
Shipping	211	123	124	175	257	26	119	129	210
Retail	289	33	0	35	285	2	35	229	58
Residential mortgage portfolio	221,739	0	0	143,443	76,356	1,940	19,617	12,050	190,072
Total NatWest Group	449,984	35,710	28,485	308,060	200,298	5,821	148,977	137,478	227,724

Footnotes page 67:

(1) Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only. Disposal Group assets £1.5 billion as at 31 December 2022, £9.1 billion as at 31 December 2021) are excluded from this table. For consistency with credit risk reporting in the Annual Report and Accounts, loan assets shown for 31 December 2022 exclude £(0.2) billion of assets that are out of scope of expected credit loss consideration. The table line 'Total Natwest Group' reflects total bank exposure including exposure including exposure categorised as heightened as well as non-heightened.

(2) Off-balance sheet includes loan commitments and contingent liabilities.

(3) As defined in the Credible Transition Plan (CTP) assessment. Refer to pages 30 – 31 of the NatWest Group plc 2021 Climate-related Disclosures Report for further details on the assessment of CTPs for oil and gas majors and in-scope coal customers.

Footnotes page 68:

(1) Geography is based on the country of operation of the customer, where cashflows are primarily derived from.

(2) Asset quality is based on Basel probability of default estimates where customers categorised as AQ1 have a very low probability of default in the next 12 months while AQ10 represents customers that are already in default. See the credit risk section of the Annual Report and Accounts for a mapping between asset quality band and indicative S&P Ratings.



5.2

UK residential mortgages – energy efficiency and flood risk assessment

This section presents the energy efficiency and flood risk profile of UK residential mortgages⁽¹⁾, amounting to £203 billion⁽²⁾, 54% of NatWest Group's loan balances as at 31 December 2022.

Energy efficiency

The charts opposite summarise the energy efficiency of the UK residential mortgage portfolio by EPC rating, with 'A' indicating the best and 'G' the worst in terms of energy efficiency. EPC data is available for mortgages amounting to £138.8 billion as at 31 December 2022 (31 December 2021 £116.2 billion). This accounts for 68% of the UK mortgage portfolio (31 December 2021 – 62%). Of these, £123.4 billion are owner occupied and £15.4 billion are buy-to-let.

Supporting our UK mortgage customers to increase their residential energy efficiency and incentivising purchase of the most energy efficient homes is a key part of our climate ambition. In addition, we have an ambition that 50%⁽³⁾ of our UK mortgage portfolio has an EPC rating of C or above by 2030. In February 2023, we announced that we will aim to provide an additional £10 billion for EPC A and B residential properties between January 2023 and the end 2025 as part of our climate and sustainable funding and financing target. As at 31 December 2022, 41.5%^(*) (31 December 2021 38.3%) of our UK residential mortgages portfolio that had EPC data available, was at EPC C or better.

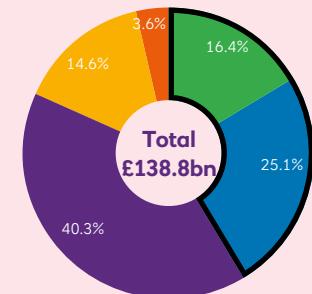
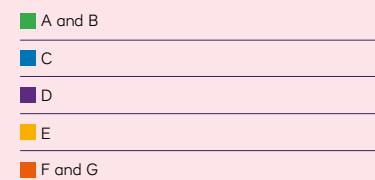
Data source and limitations: For properties in England and Wales EPC data has been sourced from the Energy Performance of Buildings for England and Wales published by the Ministry of Housing, Communities and Local Government's open data source. The data is drawn from EPCs issued for domestic and non-domestic buildings constructed, sold or let since 2008. It provides information on the energy efficiency ratings of domestic and non-domestic buildings during the energy assessment process. The registers do not hold data for every domestic and non-domestic building, or every building occupied by public authorities in England and Wales.

For properties in Scotland, we source EPC data from the Public Available Data Extracts site of the Energy Saving Trust, published by the Scottish Government. This data is updated quarterly and contains energy certificates from the start of 2013. EPC data for our Northern Ireland mortgage portfolio is sourced from the Northern Ireland Department of Finance.

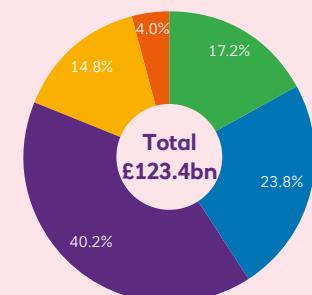
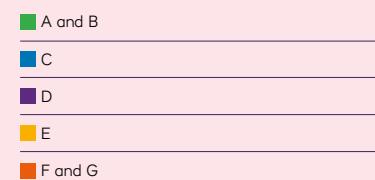
NatWest Group continues to engage with the UK Government and regulators to enhance EPC rating data availability, and disclosure. We now provide information about the energy efficiency of customers properties through the Manage my Mortgage tool.

An EPC is required when a building is constructed, sold or let, and is valid for 10 years. As a result, the EPC analysis on this page is based on EPC data at the time it was last available.

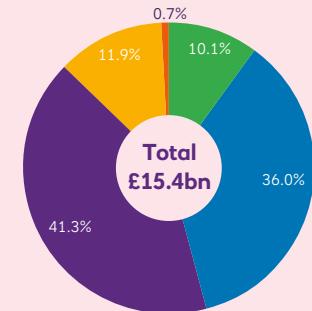
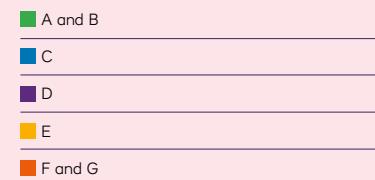
Total mortgages with EPC data available for December 2022



Owner occupied mortgages with EPC data available for December 2022



Buy-to-let mortgages with EPC data available for December 2022



(1) In addition to the Retail Banking portfolio, during 2022, EPC and flood risk data became available for the Private Banking portfolio for all periods. Data relating to the smaller RBS International mortgage portfolio continues to be excluded from analysis at this time.

(2) On a drawn exposure basis

(3) Percentage of aggregate UK mortgage exposure.

(*) Within the scope of EY assurance. Refer to page 10.



UK residential mortgages – energy efficiency and flood risk assessment continued

Flood risk

The map opposite represents the proportion of UK residential mortgage properties at high and very high risk of flood, as a percentage of the total UK mortgage lending. The flood analysis presented is based on present day risk levels which take into account the probability of flood events occurring. This analysis covers c.97% of the UK mortgage portfolio.

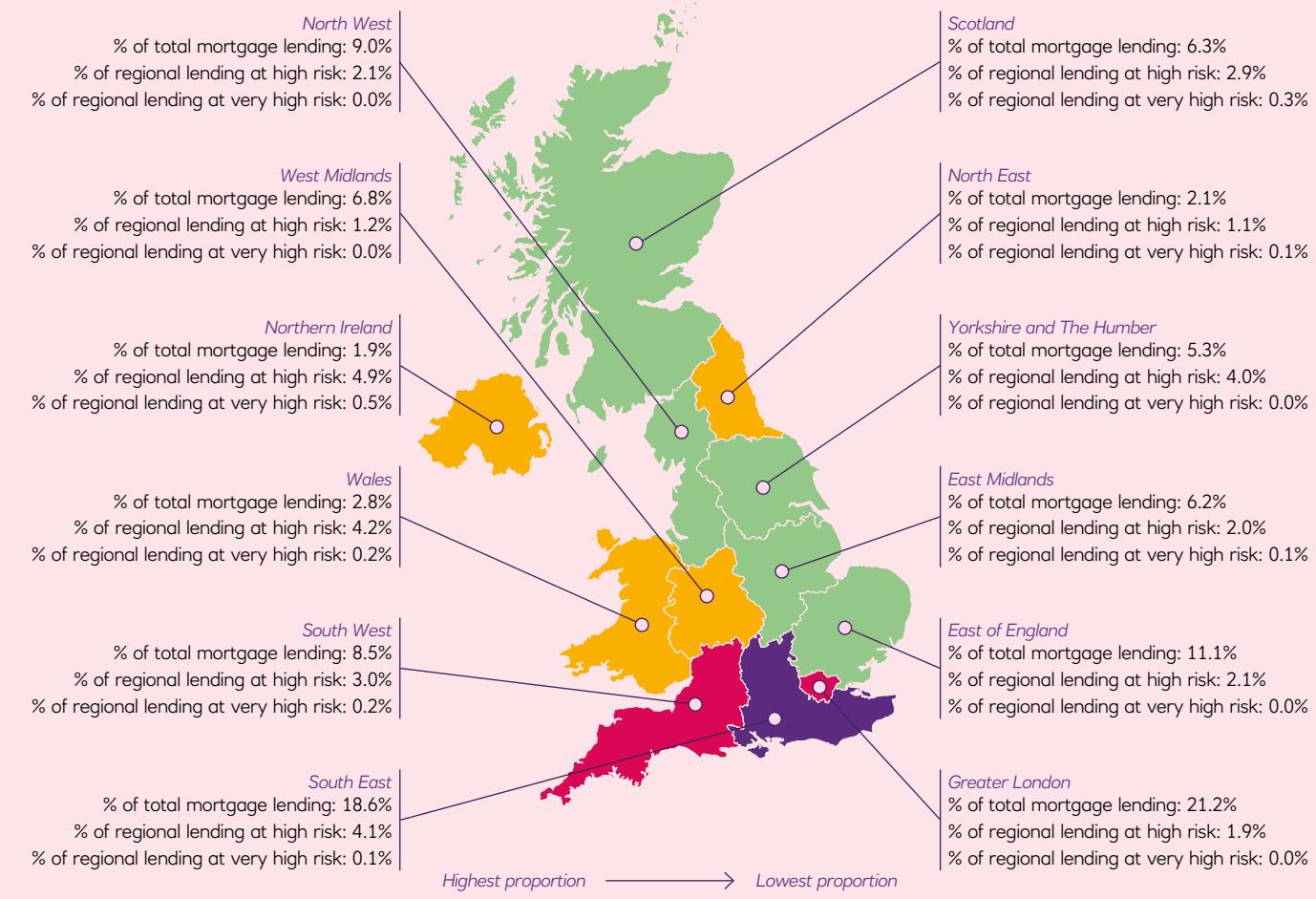
On a total volume basis, present day UK mortgages at high risk of flooding are 2.9% of the portfolio and those at very high risk are 0.1% of the portfolio. This is comparable to the overall UK volume-based analysis with high of 3.0% and very high of 0.1%.

Data for flood risk analysis: Flood risk data is obtained through our third-party vendor, Airbus, and their flood risk analysis includes surface flooding, rivers, ground water as well as coastal flooding and clay-related shrink-swell. Airbus gathers multiple geospatial datasets, derived from industry specialists including Ordnance Survey, JBA Risk Management and Property Risk Inspection. It also calculates the physical risks to properties now and as global temperatures rise using climate data from the UK Climate Projections 2018.

Flood scores: JBA model flood hazard by looking at the four different types of flooding (surface water, ground water, coastal and river) and calculating the frequency and depth of flooding nationally to derive flood maps. Flood defences are considered where available. Flood scores are allocated per property based on the potential flood damage to property dependent on the type, frequency and depth of flooding modelled across different return periods. The scoring ranges from 0 to 53, with 0 being lowest and 53 being the highest risk. We consider a score of 11 and above to be high risk and properties with a score of 31 and above within the very high risk category after flood mitigants are taken into account. JBA's flood scores in the UK are widely used by insurers, lenders, property search/conveyancers and valuation surveyors, providing a consistent view across the whole homebuying and property management process.

Proportion of properties at high and very high risk of flooding, by region^(*)

The shades in the image represent the level of flood risk in the region based on value of lending and proportion of properties at high and very high risk of flood, with lightest (yellow) being the lowest and darkest (purple) being the highest.



(*) Within the scope of EY assurance. Refer to page 10.



5.3

Climate and sustainable funding and financing

As part of supporting our customers' transition to net zero, we have a target to provide £100 billion climate and sustainable funding and financing between July 2021 and the end of 2025. NatWest Group uses its CSFFI criteria⁽¹⁾ to determine the assets, activities and companies that are eligible to be included within its climate and sustainable funding and financing targets.

As part of our £100 billion target, we are also aiming to provide at least £10 billion of lending for EPC A and B residential properties between 1 January 2023 and the end of 2025.

In the 18 months since the £100 billion target began NatWest Group has provided £32.6 billion⁽¹⁾ of climate and sustainable funding and financing (£24.5 billion during 2022⁽¹⁾).

This consisted of £27.2 billion (£20.3 billion in 2022) in Commercial & Institutional (including NatWest Markets £15.5 billion (£12.2 billion in 2022), and RBS International £2.3 billion (£1.3 billion in 2022)), £5.1 billion in Retail Banking (£4.0 billion in 2022) and £0.2 billion in Private Banking (£0.2 billion in 2022).

The table below summarises NatWest Group's climate and sustainable funding and financing activity.

	Full year ended 31 December 2022 £m	Full year ended 31 December 2021 ⁽⁷⁾ £m	Cumulative progress towards the £100bn target £m
Climate and sustainable funding and financing ⁽¹⁾			
Specific purpose wholesale lending within the scope of the CSFFI criteria ⁽²⁾	3,046	2,085	4,213
Residential mortgages with EPC A or B ⁽³⁾	4,245	1,111	5,356
Green and Sustainability Bond Public Issuances and Private Placements ⁽⁴⁾	9,953	8,227	12,730
Green Loan Underwriting ⁽⁴⁾	-	153	-
Sustainability Linked Loans ^(2,5)	5,253	3,821	7,368
Sustainability Linked Bonds and Private Placements ⁽⁵⁾	789	201	990
Other wholesale general purpose lending ⁽²⁾ or wider financing within the CSFFI criteria ⁽⁶⁾	1,213	1,948	1,921
Total	24,499⁽¹⁾	17,546	32,578⁽¹⁾

The historic values reported in the table above (and data on page 74 and 75) may be updated from values we reported in 2021. This is due to updated bills, data provision and extrapolations.

(1) For the year ended 31 December 2022, the NatWest Group CSFFI criteria published in October 2021 has been used to determine the assets, activities and companies that are eligible to be counted. For the year ended 31 December 2021, the CSFFI criteria published in February 2021 was applied. The CSFFI criteria includes lending to personal customers for properties with EPC A and B ratings, and these were included within climate and sustainable funding and financing reporting from 1 July 2021. NatWest Group's own Green, Social and Sustainability (GSS) bond issuances are not included in the table above. The revised CSFFI criteria published in December 2022 will be used from 1 January 2023. Full details of the CSFFI criteria can be found at [natwestgroup.com](#)

(2) Lending amounts represent total commitment and include any undrawn portion of committed credit limits.

(3) Refer to section 5.2 for data availability and limitations related to EPC data.

(4) Underwriting of specific use of proceeds debt capital market issuance for project expenditures, as well as green loan commitments when customers meet the CSFFI criteria. Amounts represent the NatWest Group share of the notional (total underwriting amount lead managed or placed by NatWest Group), based on the number of underwriters within a specific deal. During the year ended 31 December 2022 52 green bonds and private placements totalling a notional amount of £41.6 billion (53 deals, £38.7 billion during full year 2021) account for c.20% of the total lead managed or placed transactions by NatWest Group during the period (c.16% for full year 2021). The CSFFI criteria allows for the inclusion of eligible

sustainability bonds, which began to be included from 1 January 2022 (20 deals, climate and sustainable funding and financing contribution £2.2 billion in the year ended 31 December 2022).

- (5) Sustainability-Linked Loans, Bonds and private placements made to customers, in line with Loan Market Association (LMA) Sustainability Linked Loan principles and International Capital Market Association (ICMA) Sustainability-Linked Bond principles where deal targets include green performance indicators, aligned to CSFFI criteria.
- (6) In addition to transactions that directly meet CSFFI criteria based on use of proceeds for green purposes, the CSFFI criteria also include certain general purpose loans and wider financing (including bonds and private placements) to a customer who can evidence (to NatWest Group's satisfaction through review of the customers' profit and loss statement or balance sheet): 50% or more of revenues from the categories and sectors outlined in the criteria, or for fund clients 75% of assets under management invested in assets that meet the CSFFI criteria, or for real estate and utilities companies 75% of their assets in categories or sectors outlined by the CSFFI criteria. In the year ended 31 December 2022, the £1.2 billion included above comprised loans of £1.1 billion and bonds and private placements of £0.1 billion.
- (7) Of the £17.5 billion of climate and sustainable funding and financing provided in the year ended 31 December 2021, £8.1 billion was provided in the second half of the year and therefore contributes towards the £100 billion target.

(*) Within the scope of EY assurance. Refer to page 10.

Specific purpose wholesale loans by CSFFI criteria category in 2022⁽¹⁾

Sustainable transport

£1,331m

Renewable energy

£150m	£760m	£377m	£315m	£104m
-------	-------	-------	-------	-------

Water and waste management

£666m

Built environment

£337m

Other⁽⁴⁾

£143m

Offshore wind	Solar	Energy infrastructure ⁽²⁾
Onshore wind	Renewable other ⁽³⁾	

Geographical split of climate and sustainable funding and financing in 2022⁽⁵⁾



Notes:

- (1) Sustainability-Linked Loans are excluded from this chart.
- (2) Energy infrastructure includes lending for companies and assets relating to electricity transmission and distribution.
- (3) Renewable Energy – Other primarily relates to lending to funds that invest in multiple types of renewable energy.
- (4) Other consists mainly of energy efficiency £143 million
- (5) Since 1 July 2021, UK £17.8 billion, Western Europe £13.0 billion and Other £1.8 billion. Geography for bond issuance is linked to the region of the issuer; for loans it is linked to the region of operation of the borrowing customer.



5.4

NatWest Group's own operational footprint

During 2022⁽¹⁾, we reduced our direct own operations⁽²⁾ emissions by 46%, against our 2019 baseline, and increased our renewable electricity consumption to 98% globally.

Our own operational progress

In 2021, we disclosed an initial view of our upstream⁽³⁾ emissions, and for 2022 we are disclosing both our upstream and downstream⁽⁴⁾ emissions to report on our full operational value chain⁽⁵⁾ emissions for the first time, covering Scopes 1, 2 and 3 (all relevant categories 1-14, with category 15 financed emissions covered in section 5.5).

Our 2022 total market-based operational emissions of 73,927 tCO₂e covers Scopes 1, 2 and our direct own operations' upstream Scope 3. This includes emission reductions from the use of green electricity covering 98% of our consumption through green tariffs and renewable electricity certificates, but in accordance with the Greenhouse Gas Protocol it does not include emissions reduction from the use of carbon credits.

We purchased and retired 120,000 carbon removal credits, assured under the Verified Carbon Standard (VCS), and Triple Gold certified to the Climate, Community & Biodiversity Alliance Standards (CCBA) to invest beyond our value chain, and provide benefits to climate, especially those that generate additional co-benefits for people and nature⁽⁶⁾. By investing beyond our value chain, these carbon credits mitigate direct operational emissions of 73,927 tCO₂e in 2022, while we continue to decarbonise in line with the SBTi. Further detail of our decarbonisation plans can be found in the transition plan on our website at natwestgroup.com.

Operational emission reductions are linked to the remuneration of our executive directors. For further information, refer to the Directors' Remuneration Report within 2022 NatWest Group plc Annual Report and Accounts.

Supply chain

We have used a spend-based approach⁽⁹⁾ to estimate our supplier emissions. In late 2022, we established a (multi-year) Supplier Decarbonisation Programme to support delivery of the 2030 and 2050 carbon reduction ambitions related to our operational value chain. This will involve collaborating with our suppliers to understand their capability, data, where they are on the journey to net zero, and what help they might need to progress.

We are also working with a third party to evaluate our supply chain using evidence-based assessments of sustainability performance enabling us to understand our wider impact and to identify where improvements can be made, and risks mitigated.

As part of increasing the sustainability of our cash and coin operations, we have engaged our suppliers to reduce the amount of single-use plastic coming in and going out of our cash centres and to improve the accuracy of data for our waste streams.

For our properties, the suppliers we work with must have environment and quality management accreditations and products used in fit-outs should meet all Royal Institution of Chartered Surveyors [SKA](#) criteria as standard.

The table below presents an update on our climate ambitions related to our own operational footprint.

Own operations key performance indicators	Target Year	Baseline Year	2022	% Target Achieved	2021
Carbon and Energy					
(RE100) ⁽⁷⁾ 100% renewable electricity for global operations (% global electricity)	2025	N/A	98%	98%	97%
50% emissions reduction from direct own operations (% total direct own operation emissions)	2025	2019	-46%	92%	-44%
(EP100) 40% energy productivity improvement (% total energy)	2025	2015	41%	103%	36%
Electric Vehicles (EV100)					
100% of our fleet vehicles electric (% of fleet converted to electric)	2025	N/A	3%	3% ⁽¹⁰⁾	1%
Install EV chargers in 15% of large office spaces across our portfolio (% large office spaces with charging infrastructure)	2025	N/A	13%	87%	11%
Resource Use					
Maintain zero waste to landfill in UK & Republic of Ireland (% waste diverted from landfill)	2025	2019	99.9%	99.9%	99.9%
Waste diverted from landfill and incineration (UK & Republic of Ireland) ⁽⁸⁾	2025	2019	86%	91%	88%
Reduce paper consumption 70% (% paper reduced)	2025	2015	-67%	96%	-65%

The historic values reported in the table above (and data on page 74 and 75) may be updated from values we reported in 2021. This is due to updated bills, data provision and extrapolations.

(1) Our own operational emissions reporting year runs from the 1st of October 2021 to the 30th of September 2022.

(2) NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.

(3) Upstream emissions relate to the Scope 3 Categories 1-8 under the Greenhouse Gas Protocol.

(4) Downstream emissions relates to the Scope 3 Categories 9-15 under the Greenhouse Gas Protocol.

(5) Our operational value chain is Scope 1, Scope 2, Scope 3 (Categories 1-15, with categories 8, 10, 14 excluded and Category 15 reported in section 5.5. For further details please refer to our 2021 NatWest Group plc Climate-related Disclosures Report where these categories are described in more detail.

(6) The SBTi recommends that companies invest to mitigate emissions beyond their value chain while they transition towards a state of net zero emissions. In accordance with the Greenhouse Gas Protocol, emission reductions cannot be achieved through the use of carbon credits.

(7) Using green tariffs and purchased renewable electricity certificates.

(8) Increase resource efficiency and the circular economy to ensure resources are valued and nothing is wasted. Further, zero waste will require us to maintain our zero landfill to waste achievements, with a goal to divert 95% of all waste from landfill and incineration.

(9) Category 1 and 2 emissions have been estimated using spend data and publicly sourced sector-specific emission factors.

(10) While progress is currently 3%, we are expecting the exit of Republic of Ireland activities to result in our fleet size further decreasing in size by 56%. The remaining fleet electrification by 2025 is planned in line with lease renewals and monitored through our own operations executive steering group.



NatWest Group's own operational footprint continued

Own operational 2022 value chain

The charts opposite show a break down by emissions category of our direct own operational emissions during 2022 and our upstream and downstream operational value chain emissions, which we are reporting for the first time.

NatWest Group uses the Greenhouse Gas Protocol to measure its emissions across Scopes 1, 2 and 3, where the latter is split into 15 categories. For a breakdown of these categories within our reporting scope, as well as a description of upstream reporting limitations, please see page 67 in our [2021 Climate-related Disclosures Report](#).

Data assumptions and limitations relating to preliminary estimates of operational value chain emissions:

- We have used methodologies aligned to the Greenhouse Gas Protocol to estimate our preliminary emissions on our operational value chain.
- Category 9** emissions use customer numbers to estimate the distance commuted to our branches.
- Category 11** emissions analyses time spent on our app and website.
- Category 12** emissions use paper and card numbers to estimate waste.
- Category 13** uses our leased net internal area and intensity metric.
- Data improvement programmes to review our preliminary estimations may cause these figures to be updated in the future.

As shown in the downstream chart opposite, downstream emissions have reduced by less than direct and upstream emissions. This is because downstream emissions are driven mainly by how our customers commute to our branches and use our products, and as such is more difficult for us to directly influence.

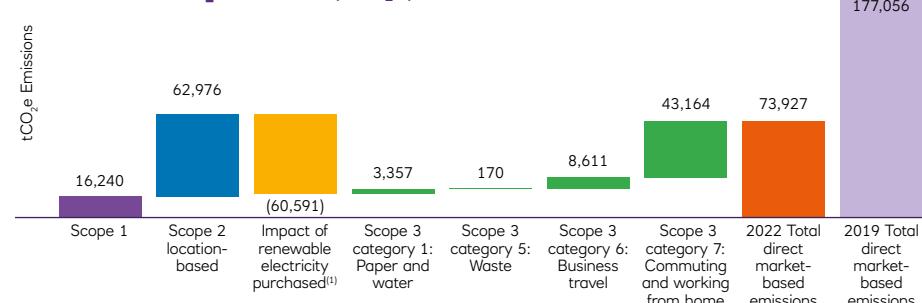
Energy

Following the return to the office after the easing of COVID-19 restrictions, we focused on the practice of using energy more efficiently and effectively in our operations and reviewed our processes to reduce consumption. These reviews include:

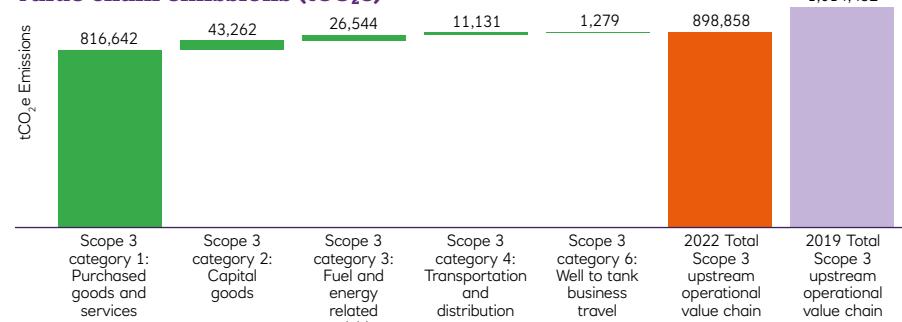
- Building energy optimisation:** our building plant equipment is continuously reviewed to maximise energy efficiency. Data analytics are used to proactively identify anomalous consumption, ensuring our buildings run more efficiently.
- Energy audits:** there have been audits carried out in most of our buildings this year to identify where we can improve energy efficiency and reduce consumption and this work will continue in 2023.
- Data centres:** we have consolidated our data centres to allow for more efficient IT architecture using fewer resources. The work carried out ensures that they run more efficiently, with lighting upgrades and optimisation of the data hall environmental controls already seeing a significant reduction in water and power usage.
- Renewable electricity:** in 2021, we committed to a Corporate Power Purchase Agreement (cPPA), bringing additional renewable generation capacity online to facilitate the decarbonisation of the UK grid. We are continuing to work towards this with additional cPPAs, and once constructed they are expected to generate 59% of NatWest Group's electricity demand in the UK by 2024.
- Leased buildings:** for our leased buildings in India, we are working with the landlords to review the scope for identifying energy-saving opportunities, assessing end of life for equipment, and creating an energy efficient replacement plan where possible.
- Colleague engagement:** we launched a bank-wide energy campaign in the second half of 2022 to help educate and engage our colleagues by sharing tips on how to reduce consumption at home and in the office through a series of activities, raising the importance of energy saving actions. This is an ongoing campaign which we will continue to work on in 2023.

(1) Scope 2 location-based emissions are mainly from electricity, calculated using the national grid factors. As electricity makes up the majority of our Scope 2 emissions, our use of renewables drives significant reduction as shown in the diagram.

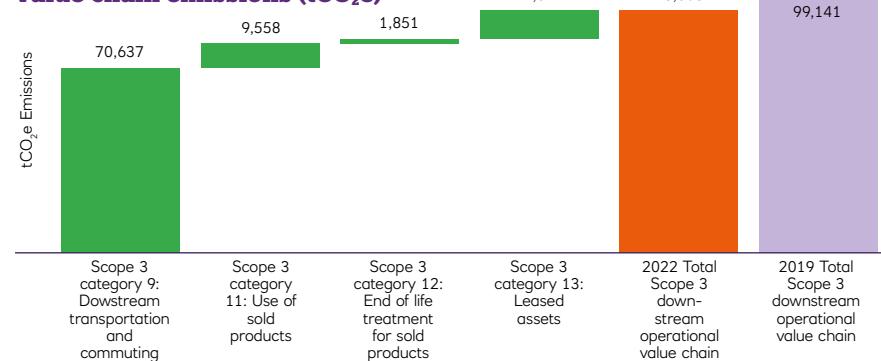
2022 Breakdown of direct emissions from our own operations (tCO₂e)^(*)



2022 Breakdown of upstream operational value chain emissions (tCO₂e)^(*)



2022 Breakdown of downstream operational value chain emissions (tCO₂e)^(*)



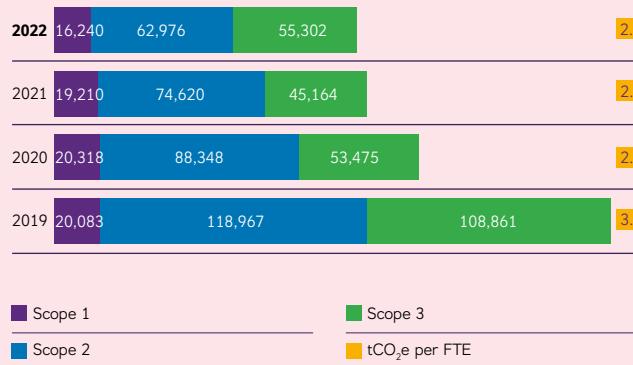
(*) Within the scope of EY assurance. Refer to page 10.



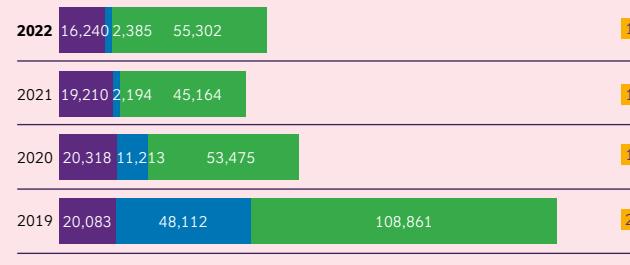
NatWest Group's own operational footprint continued

These charts present the 2019 to 2022 trends related to NatWest Group's own direct operational GHG emissions, energy consumption, paper consumption, water consumption and waste generated. Following our return to the office and changes in our ways of working after the easing of COVID-19 restrictions, we have seen an 11% yearly increase in our market-based GHG emissions and 44% increase in our water consumption. However, these metrics remain well under 2019 levels while other key metrics have continued to trend downwards.

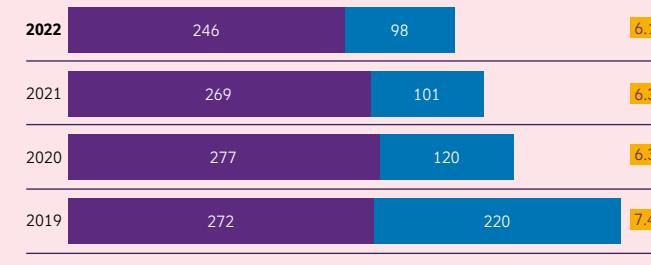
Location-based GHG emissions (tCO₂e)



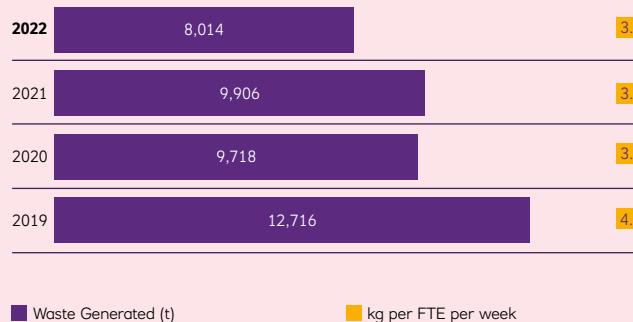
Market-based GHG emissions (tCO₂e)



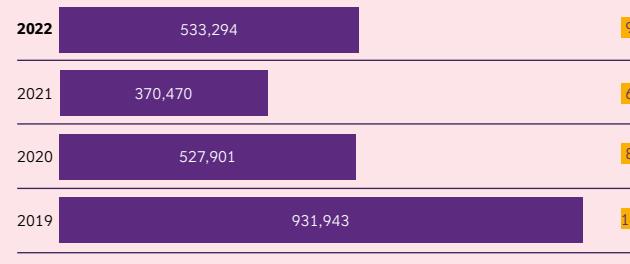
Energy consumption (GWh)



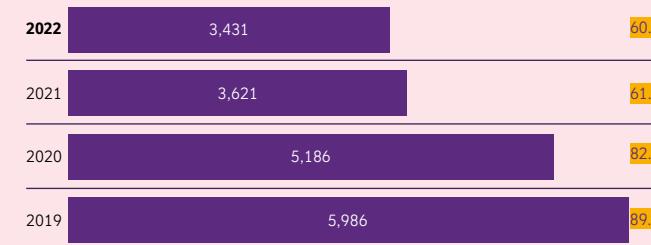
Waste generated (t)



Water consumption (m³)



Paper used (t)



(1) Location-based GHG emissions method reflects the average emissions intensity of grids on which energy consumption occurs (using grid-average emission factors). Market-based emissions reflect emissions from electricity procured from sources NatWest Group has selected, including renewable electricity. As renewable sources have nearly zero emissions associated with energy generation, market-based emissions are lower than location-based emissions. Refer to Streamlined Energy and Carbon Reporting and Emissions Methodology section on the following page for further details of the basis of GHG emissions calculation.

(2) Units of measure: tCO₂e is metric tonnes of carbon dioxide equivalent; GWh is Gigawatt hours of energy, MWh is Megawatt hours of energy; t is a metric tonne; m³ is a cubic metre; FTE is a full-time employee equivalent.

(3) Waste generated comprises: Recycled (2022 6,674t, 2021 8,486t, 2020 7,217t, 2019 9,405t), Incineration (2022 1,091t, 2021 1,170t, 2020 2,030t, 2019 2,832t), Reused (2022 239t, 2021 241t, 2020 464t, 2019 437t), Landfilled (2022 10t, 2021 9t, 2020 7t, 2019 42t).



NatWest Group's own operational footprint continued

Streamlined Energy and Carbon Reporting (SECR)

	2022	2021		
	UK and offshore area ⁽¹⁾	Global total (excluding UK and offshore) ⁽¹⁾	UK and offshore area ⁽¹⁾	Global total (excluding UK and offshore) ⁽¹⁾
Greenhouse gas (GHG) emissions				
Emissions from the combustion of fuel and operation of any facility (Scope 1 ⁽²⁾ Direct) CO ₂ e (tonnes) ^(*)	14,877	1,363	17,560	1,650
Emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2 ⁽³⁾ Indirect)				
Location-based CO ₂ e emissions (tonnes) ^(*)	47,546	15,430	56,461	18,159
Total gross Scope 1 & 2 (location-based) emissions CO ₂ e (tonnes) ^(*)	62,423	16,793	74,021	19,809
Energy consumption used to calculate above emissions (kWh)	298,262,392	35,070,567	329,317,585	40,484,981
Intensity ratio: Location-based CO ₂ e emissions per FTE (Scope 1 & 2) (tonnes/FTE)	1.6	1.0	1.8	1.1
Scope 3 ⁽⁴⁾ CO ₂ e emissions from direct operations ⁽⁵⁾ (tonnes) ^(*)	39,559	15,743	36,197	8,967
Total gross Scope 1, 2 & 3 direct own operations (location-based) emissions CO ₂ e (tonnes) ^(*)	101,982	32,536	110,218	28,776
Intensity ratio: Location-based direct own operations CO ₂ e emissions per FTE (Scope 1, 2 & 3) (tonnes/FTE)	2.5	2.0	2.7	1.7
Scope 2 market-based ⁽⁶⁾ CO ₂ e emissions (tonnes) ^(*)	13	2,372	8	2,186

(1) Offshore area as defined in The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018. This includes Jersey and Guernsey but not our overseas sites in America, EMEA and Asia-Pacific. These are included in the global total (excluding UK and offshore).

(2) Scope 1 emissions from natural gas, liquid fossil fuels, fluorinated gas losses and owned/leased vehicles.

(3) Scope 2 emissions from electricity, district heating and cooling used in NatWest Group premises.

(4) Scope 3 emissions from paper and water, category 5: waste (UK and Republic of Ireland only), category 6: business travel including air, rail, hired vehicles and our grey fleet, category 7: employee commuting and working from home.

(5) NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.

(6) Market-based Scope 2 emissions. We have procured 100% of UK and Republic of Ireland and 98% globally from renewable sources using green tariffs and renewable electricity certificates. The 13 tCO₂e arises from district cooling and district heating, which is used at only a few sites.

(*) Within the scope of EY assurance (2022 only). Refer to page 10.

Emissions methodology and basis of preparation

Boundary: this statement has been prepared in accordance with our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government's policy on Streamlined Energy and Carbon Reporting. Our reporting year runs from the 1st of October 2021 to the 30th of September 2022. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.

Calculation: emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance and include all greenhouse gases, reported in tonnes of carbon dioxide equivalent (CO₂e) and global warming potential values. When converting data to carbon emissions, we use Emission Factors from UK Government Emissions Conversion Factors for Company Reporting (Department for Business, Energy & Industrial Strategy, 2021, CO₂ emissions from fuel combustion (International Energy Agency, 2021) or relevant local authorities as required. NatWest Group uses a third-party software system, to capture and record our environmental impact and ensure that control framework and assurance requirements are met. All data is aggregated at a regional level to reflect the total regional consumption. The regional consumption results are then collated to reflect the total NatWest Group footprint. CO₂e values are attributed to these sources via an automatic conversion module in the third-party system. For more information, please see the own operational footprint page at natwestgroup.com.



NatWest Group's own operational footprint continued

Waste

Since 2019, we have reduced our waste by 37% by working with our colleagues to educate on the importance of the waste hierarchy and circular economy.

We have undertaken analysis of waste at our Gogarburn office to understand how we can achieve zero waste. This highlighted opportunities to reduce single use items by 3 tonnes and increase recycling by an estimated 1.3 tonnes. We are working with our waste suppliers towards this zero waste ambition and engaging key stakeholders to capitalise on any opportunities there are to reduce, reuse and recycle through our findings and investments.

Our paper consumption has decreased by 67% from our 2015 baseline through actions such as our digital first options including giving customers the option to switch to paperless, as well as educating colleagues on the technology they can use instead of printing. Over the course of 2022, we have saved 15.7 million envelopes from being sent to our customers.

In our drive towards a circular economy, we continue to maximise use of pre-loved and up-cycled furniture. Across our branches, we re-used a total of 11,767 assets which diverted 461 tonnes of waste. Also, we continue our aim to remove single use plastics from our properties, with our key catering supplier removing the majority of plastic cups and cutlery from our main offices and our colleagues encouraged to opt for reusable options.

We have continued our ambition towards a more sustainable cash cycle with cash now leaving our UK cash centres without plastic wrapping and the notes un-sleeved in line with our charter.

New debit cards, made from 86% of recycled materials, have been introduced saving c.190 tCO₂e over the past year.

We have delivered our most sustainable branch uniform yet in 2022, using recycled fabrics and reducing the use of packaging while working to reuse and recycle old uniforms where possible, with internal swap shops and donating non-branded items to charity.

Climate Group Initiatives

EP100 – we continue to be on track for our 2025 ambition with energy productivity increasing by 41% since 2015. Across our global portfolio compared with 2021, natural gas consumption decreased by 17% due to the reduced reliance on airflow required in our offices as COVID safety measures were removed. Also, electricity consumption decreased by 8% following the implementation of energy efficient plans that includes new ways of working and relocating to more efficient sustainable buildings.

RE100 – in 2022 we increased our consumption of renewable electricity to 98% across our global operations, including 100% of UK and Republic of Ireland consuming renewable electricity. We have achieved this through a combination of green tariffs and purchasing Renewable Electricity Certificates (RECs) for our landlord-supplied properties in India, Europe and the UK, where we are currently unable to specify a requirement for renewable electricity. To achieve our 2025 ambition for 100% global renewable electricity, we continue to work with our principal landlords to advocate for renewable electricity provision for all properties, where possible.

EV100 – we have installed electric vehicle charging points in 13% of our large office car park spaces across our UK portfolio and have converted 3% of our owned and operated fleet to electric vehicles. Since the EV100 ambition was set, the fleet has reduced in size by approximately 66%, and we are reviewing where we can positively impact other vehicle electrification outside of our ambition. We are reviewing our learnings from the EV100 plan and would like to adopt these practices across our global operations using electric transport where available and provide electric vehicle chargers for staff at our offices in India. We are also developing the design for an electric vehicle mobile branch pilot and supporting charging infrastructure to enable further roll-out.



Other Own Operational Initiatives

Carbon Credits: in 2020 we set an ambition to procure 120,000 tCO₂e each year in carbon removal credits up to 2025. In 2022 we retired 120,000 tCO₂e carbon removal credits, assured under the Verified Carbon Standard (VCS), and Triple Gold certified to the Climate, Community & Biodiversity Alliance Standards (CCBA) to invest beyond our value chain, and provide benefits to climate, especially those that generate additional co-benefits for people and nature. We intend to continue to mitigate our emissions beyond the value chain in line with SBTi recommendations. We recognise the importance of ensuring the integrity of natural capital and we screen nature-based carbon credits against established methodologies that offer leading additional environmental and social co-benefits

Nature: Using equipment funded by NatWest Group, the Wild Carbon Fund with the University of the West of England have begun research into the soil health of naturally regenerated woodlands in Cambridgeshire. The aim of the research is to develop a methodology that will allow the benefits of soil health and re-wilding to be measured and included in future carbon credit markets. Further, NatWest has partnered with Revere, a collaboration between National Parks and Palladium that aims to restore the UK's best-loved protected landscapes. Large scale nature restoration projects will contribute to the collective strategy of NatWest and UK National Parks in the fight against climate change and biodiversity loss. For further detail on Nature, refer to our 2022 ESG Disclosures Report.

Internal Carbon Pricing: we are looking at options to calculate an internal price on carbon for our own operations and plan on trialling an approach to help drive sustainable decision-making.

Technology: a climate dashboard was created in 2022 to allow users to see the emissions for each server, application and domain and drill down into the detail available. This tool will assist with tracking progress of the reduction of our emissions and power utilisation across the group.

Design: we have a continued focus on delivering sustainable quality assured fit-outs across all of our buildings, using SKA ratings to assess fit-out projects against a set of sustainability criteria. In 2022, we achieved a silver SKA rating for an additional three branches and one office. By achieving silver, we are demonstrating sustainable workplace design and implementation. As part of our commitment to ensure responsible design of our buildings, we are trialling a carbon calculator specifically to understand and review our impact.

Innovation: in 2022 we trialled remote fixes to our ATMs in our hardest-to-reach branches via augmented reality, allowing our engineers to examine an ATM remotely.



5.5

Estimates of financed emissions

In February 2020, we set ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. Financing activity refers to the loans and investments (debt securities and equity shares) on NatWest Group's balance sheet. We use financed emissions as a key metric to estimate the climate impact of our financing activity and set a baseline for our climate ambition to align with the 2015 Paris Agreement. Financed emissions are GHG emissions that NatWest Group finances through its lending and investment activity. These activities fall within Scope 3, category 15 of the GHG Protocol and are often the most significant part of a financial institution's climate impact. Financed emissions can be measured as absolute emissions or emissions intensities. Absolute emissions, measured as million tonnes of carbon dioxide equivalent per year, reflect the impact of a financial institution's lending and investment on economic activity e.g. production of goods and services, and related emissions. Emissions intensities can be measured as physical or economic emissions intensities. Physical emissions intensities are emissions per physical unit e.g. tonne or kilometre, and are sector-specific. Economic emissions intensities are emissions per £ lending or investment and can be aggregated and compared across sectors.

Estimating absolute financed emissions and emission intensity enables us to:

- identify, assess and manage climate-related risks and opportunities,
- understand the drivers of climate-related transition risks and opportunities in our business,
- set a baseline for climate action to align with the 2015 Paris Agreement, and the development of the initial iteration of our climate transition plan,
- monitor the progress we are making against the initial iteration of our Climate transition plan.

During 2022, we worked on enhancing our capabilities and extending the scope of our financed emission models. We have now analysed 69% of our loans and investment portfolios based on the 2019 balance sheet. Our work was guided by the availability of methodologies for estimating financed emissions, most notably from the SBTi and PCAF. Financed emissions are published one year in arrears of our financial reporting date to allow time for appropriate data sourcing and review.

NatWest Group approach to estimating financed emissions

Data quality: A common theme across all sector models relates to data limitations, including lack of published emissions data and granularity of customer information. As a result, the estimates included in this section are premised on use of assumptions, extrapolations or aggregation at subsector levels. Based on these limitations, we expect our estimates of emissions to change as we improve the granularity and coverage of customer climate data and develop our methodologies further. See page 80 for a summary of our PCAF data quality scores by sector.

We will continue to engage with customers and stakeholders, and participate in wider initiatives, to help enhance the availability of decision useful granular climate-related data for customers. Our measurement work to date has reinforced our understanding of the challenges involved in financed emissions calculation as well as the urgency and the scale of transition required to align our financing activities to the 2015 Paris Agreement and achieve net zero. As outlined in the initial iteration of our Climate transition plan, addressing the climate crisis is not something NatWest Group or any individual organisation can do on its own. There is a dependency on the UK Government and clear, timely regulatory policy and technology developments, as well as on our customers and society to respond. We have factored these dependencies and associated risks into our transition plan and continue our proactive work on policy engagement as well as developing partnerships to support the transition. Refer to section 3 for details on the initial iteration of our Climate transition plan.

During 2022, we published our sector level targets validated by the SBTi as science-based. The 2030 physical emissions intensities included in this section are based on external scenarios which outline policies, technology developments and other changes required to achieve the 2030 estimates. We will continue our work on enhancing our measurement capabilities and, over time, we expect climate data granularity to improve as we move towards utilising actual customer climate data.

Estimation of absolute emissions: In line with the PCAF Standard for financed emissions, we have estimated absolute emissions based on Scope 1 and 2 emissions attributable to loans and investments for the sectors or subsectors analysed. In addition, for our oil and gas extraction, land transport and automotive manufacturing sectors, we included Scope 3 emissions based on downstream use of products sold as they constitute a large proportion of the overall estimated emissions in these sectors. In general, we have sought to estimate absolute emissions based on the following formula prescribed by the PCAF Standard:

$$\text{Absolute emissions} = \sum_i \text{Attribution factor}_i \times \begin{array}{l} \text{Emissions} \\ (\text{with } i = \text{borrower} \\ \text{or investee}) \end{array}$$

↓

$\frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$
--

Attribution factor: The PCAF Standard requires a financial institution's share of absolute emissions to be proportional to the borrower's or investee's total (company or project) value. According to the GHG Protocol, absolute GHG emissions from loans and investments are allocated or attributed to the reporting financial institutions based on the proportional share of loans and investments in the borrower or investee. The attribution factor is calculated by determining the share of the outstanding amount of loans and investments of a financial institution over the total equity and debt of the borrower or investee company.

Estimation of emission intensity: To calculate physical emissions intensity, the physical output unit was calculated based on customer production data (where available) or production proxies such as an average production-to-revenue factor for customers with similar operations in the sector. This metric assumes that customers in a given sector have similar cost/revenue structures and that the sector operates essentially as a free market, absent of monopoly rents. Economic emissions intensities refer to absolute emissions per pound of lending or investment. These are calculated as a metric to help NatWest Group assess the marginal impact of its lending to its Scope 3, category 15 GHG emissions. This metric assumes that the marginal impact of a pound lent or invested for that sector does not depend on existing financing in the sector. In other words, each additional or marginal pound of lending or investment to a customer in that sector, results in the same additional or marginal increase in activity and thus emissions in the real economy.

Estimated convergence points: To estimate emissions intensity reduction required by 2030 (convergence year), we have used externally published independent scenarios to estimate convergence points for 2020, 2021, 2030 and 2050 by sector based on a 2019 baseline. The convergence points are determined based on the rate of change required by the external scenario each year between 2019 and 2030. The graphs included in sector pages in this section include convergence points for 2020, 2021, 2030 and 2050, being the expected trajectory (convergence pathway) for alignment with the 2015 Paris Agreement. In general, we have used the UK CCC's BNZ scenario or the IEA's B2DS scenario for various sectors aligned with the Sectoral Decarbonization Approach (SDA) approach prescribed by the SBTi guidance. Aligned with the SBTi guidance, we have used those scenarios which require greatest percentage reduction in intensity for each sector. Refer to page 89 for scenarios used for each sector.



Estimates of financed emissions continued

Link to NatWest Group balance sheet

The table below shows the on-balance sheet gross lending and investment exposure, accounted at amortised cost and FVOCI to sectors for which absolute emissions and emissions intensity analysis is included in this section at 31 December 2021 and 2019.

System	Sector	As at 31 December 2021			As at 31 December 2019			Comments
		On balance sheet loans & investments (£bn)	Loans & investments analysed ⁽¹⁾ (£bn)	% analysed	On balance sheet loans & investments (£bn)	Loans & investments analysed ⁽¹⁾ (£bn)	% analysed	
Property	Residential mortgages	194.0	194.0 ^(*)	100%	174.0	174.0	100%	Lending secured by collateral is included for estimation of financed emissions. Unsecured lending and lending related to construction activities are excluded.
	Commercial real estate	18.3	15.6 ^(*)	85%	23.2	17.7	76%	Amounts analysed relate to construction related activities and exclude purchase and rental of machinery.
	Construction	4.6	4.0	87%	3.5	2.9	83%	We have analysed automotive manufacturing and related activities. These activities are generally carried out by large companies which are expected to be in a position to change the emissions profile of vehicles than equipment manufacturers or car rental or sale companies.
Mobility	Automotive	6.5	0.3	5%	6.2	0.3	5%	Land transport subsectors have been separately analysed due to differences in their emissions profiles. Exclusions include activities related to logistics including cargo handling and storage facilities.
	Land transport and logistics	4.6	4.3	93%	3.8	3.8	100%	
	of which Freight road	1.5	1.5	100%	1.1	1.1	100%	
	of which Passenger rail	0.6	0.6	100%	0.5	0.5	100%	
	of which Passenger road	2.2	2.2	100%	2.2	2.2	100%	
	Airlines and aerospace	1.5	0.9	60%	1.7	0.9	53%	We have analysed exposures related to operation and leasing of aviation transport equipment, with manufacturing and services activities being excluded.
Energy	Shipping	0.9	0.9	100%	1.2	1.2	100%	
	Power utilities	4.1	3.5	85%	3.3	2.8	85%	Loans and investments analysed relate to customers engaged in electricity generation activities.
	Mining and metals	0.4	0.1	25%	0.6	0.1	17%	We have analysed loans and investments related to aluminium and iron and steel.
	Oil and gas	1.7	1.7 ^(*)	100%	2.1	2.1	100%	
Food	Agriculture	5.1	4.1 ^(*)	80%	4.9	4.0	82%	We have analysed primary farming and fishing activities to estimate emissions. In addition, we have separately estimated emissions for land-use land-use change and forestry (LULUCF) as these activities support removal of CO ₂ .
Manufacturing	Building materials	1.3	0.1	8%	1.3	0.2	15%	We have analysed the cement subsector within building materials.
Water and waste	Water and waste	2.9	2.8	97%	2.5	2.4	96%	We have analysed the waste sector.
Total excluding disposal group loans		245.9	232.3		228.3	212.4		
Disposal group loans⁽²⁾		9.1	7.6	84%	-	-	-	
of which Residential mortgages		5.8	5.8	100%	-	-	-	
of which Wholesale		3.3	1.8	55%	-	-	-	
Total including disposal group loans		255.0	239.9		399.0	212.4		
Total NatWest Group		425.3⁽³⁾			399.0⁽³⁾			
Percentage analysed			56.4% ⁽⁴⁾			53.2% ⁽⁴⁾		

(1) Loans and investments analysed refer to amounts included in estimation of financed emissions.

(2) Disposal group loans relate to UBIDAC loans where legally binding agreements for the sale of UBIDAC business have been announced as part of the phased withdrawal from the Republic of Ireland.

(3) Includes investments (Debt securities and Equity shares) of £45.6 billion at 31 December 2021 (£60.7 billion at 31 December 2019). Investments within sectors analysed are: construction £55 million at 31 December 2021 (nil as at 31 December 2019) and automotive £2 million at 31 December 2021 (nil as at 31 December 2019).

(4) In addition to the above, lending amounting to £55.3 billion at December 2019, primarily related to financial institutions, housing associations, automotive and industrials sectors; and investments amounting to £7.9 billion, at December 2019, were assessed under the temperature alignment methodology and included within the SBTi temperature rating target. Including the amounts analysed under the temperature alignment methodology increases the overall lending and investments analysed as at December 2019 to 69%. Corresponding amounts at 31 December 2021 were £58.9 billion for lending and £7.9 billion for investments, and overall amount analysed is 72%.

(*) Within the scope of EY assurance. Within agriculture, primary farming only. Refer to page 10.



Estimates of financed emissions continued

Estimates of absolute emissions and emissions intensities:

The table below shows estimates based on our work to date and should be read in conjunction with section 5.7 (Caution about climate metrics) and Risk Factors included in the 2022 Annual Report and Accounts. The table below shows NatWest Group's estimated (i) absolute emissions, (ii) physical and economic emissions intensities, (iii) physical emissions intensity reduction estimates for year 2030 aligned to NatWest Group's climate ambition to halve the climate impact of financing activity, including those validated by the SBTi as science-based. We will continue to work on these in 2023 and further refine our estimates as we enhance our understanding, calculation methodologies and data. As detailed throughout this section, we have used a combination of methodologies (some of which are still under development) to estimate these emissions.

System	Sector	2021				2019				2030	
		Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity	Economic emissions intensity	Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity	Economic emissions intensity		
Property	Residential mortgages	3.1 ^(*)		37.8 kgCO ₂ e/m ² ^(*)	15	3.0		38.7 kgCO ₂ e/m ²	17	49% ⁽¹⁾	
	Commercial real estate	0.3 ^(*)		56.6 kgCO ₂ e/m ² ^(*)	19	0.4		56.0 kgCO ₂ e/m ²	21	60% ⁽¹⁾	
	Construction	0.6		43.4 tCO ₂ e/£m	128	0.4		46 tCO ₂ e/£m	154	52% ⁽²⁾	
Mobility	Automotive manufacturing ^(3,4)		0.5	250 gCO ₂ e/vkm	1,363		0.3	260 gCO ₂ e/vkm	1,362	24% ⁽¹⁾	
	Land transport and logistics		0.1	0.2	45.9 gCO ₂ e/tkm	216	0.1	0.2	36.7 gCO ₂ e/tkm	292	19% ⁽¹⁾
	of which Freight road ⁽⁴⁾		0.2	0.1	59.4 gCO ₂ e/pkm	506	0.3	0.2	50.6 gCO ₂ e/pkm	976	42% ⁽¹⁾
	of which Passenger rail ⁽⁴⁾		0.2	0.2	86.9 gCO ₂ e/pkm	152	0.2	0.3	64.9 gCO ₂ e/pkm	221	31% ⁽¹⁾
	Airlines and aerospace										
	of which Aviation		0.4		414		1.8		2,122	28% ⁽²⁾	
	Shipping ⁽⁵⁾		0.2		243		0.4		319	28% ⁽²⁾	
Energy	Power utilities										
	of which Electricity generation	0.5		116.7 kgCO ₂ e/MWh	156	2.4		223.2 kgCO ₂ e/MWh	885	76% ⁽¹⁾	
	Aluminium ⁽³⁾			7.0 tCO ₂ e/tonne	1,215			2.5 tCO ₂ e/tonne	1,155	28% ⁽¹⁾	
	Iron and steel	0.3		1.9 tCO ₂ e/tonne	5,417	0.3		1.6 tCO ₂ e/tonne	4,820	50% ⁽¹⁾	
	Oil and gas ⁽⁴⁾	0.9 ^(*)	0.2 ^(*)	2.4 tCO ₂ e/TJ	487	1.7	1.9	2.6 tCO ₂ e/TJ	736	38% ⁽²⁾	
Food	Agriculture										
	of which Agriculture primary farming	3.9 ^(*)		2,111 tCO ₂ e/£m ^(*)	958	4.1		2,075 tCO ₂ e/£m	1,033	26% ⁽²⁾	
	of which Agriculture LULUCF ⁽³⁾			(131) tCO ₂ e/£m	(358)			(333) tCO ₂ e/£m	(729)		
Manufacturing	Building materials										
	of which Cement	0.2			2,250	0.5		0.6 tCO ₂ e/tonne	2,586	67% ⁽¹⁾	
Water and Waste	Water and waste										
	of which Waste	1.0		1,089 tCO ₂ e/£m	1,082	1.0		1,164 tCO ₂ e/£m	1,572	47% ⁽²⁾	

(1) Physical emissions intensity reduction targets validated by SBTi, as science based.

(2) Sectors within the scope of temperature rating targets validated by the SBTi as science based. For oil and gas and agriculture, SBTi SDA methodologies are still under development and we expect to set targets aligned with the SDA approach as these methodologies develop.

(3) 2019 and 2021 Scope 1 and 2 emissions are below 0.1 MtCO₂e.

(4) Scope 3 emissions are included in the estimation of physical emissions intensity.

(*) Within the scope of EY assurance. Refer to page 10.



Estimates of financed emissions continued

Current data limitations result in the use of judgements and assumptions in the estimation of financed emissions.

The PCAF Standard for financed emissions recommends applying a data quality scoring methodology to help assess data quality challenges and recognise areas for improvement. PCAF's ratings assign directly collected customer emissions data a better score while estimated or extrapolated data achieves lower scoring. **A PCAF score of 1 is typically considered to have a very low margin of error for estimation of financed emissions, while a PCAF score of 5 is typically considered to have a much larger margin of error.** Data limitations mean that sectors are generally foot-printed using a mixture of customer-specific emissions and estimated data.

The table shows the percentage of exposures in each sector for which (a) externally published emissions and production data has been used; (b) revenue estimates have been used; or (c) extrapolation has been applied to estimate emissions, and related data quality scores. Data quality scores vary across sectors based on source of data as well as level of estimation required.

System	Sector	Published emissions / Production data (%)	2021				Overall data quality score	2019 Overall data quality score
			Data quality ⁽¹⁾	Revenue estimated emissions(%)	Data quality	Sector estimated emissions (%)		
Property	Residential mortgages	56	3	–	–	44	5	3.9 ⁽¹⁾ 4.1
	Commercial real estate	16	3	–	–	84	5	4.7 ⁽¹⁾ 5.0
	Construction	2	3	30	4	68	5	4.7 4.7
Mobility	Automotive manufacturing Scope 3	94	2	2	4	4	5	2.2 3.3
	Land transport and logistics	1	2	73	4	26	5	4.2 4.2
	Airlines and aerospace							
	of which aviation	10	1	52	4	38	5	4.1 4.5
	Shipping	25	1	64	4	11	5	3.4 3.3
Energy	Power utilities							
	of which electricity generation	68	3	8	4	21	5	3.5 3.4
	Aluminium	–	–	4	4	96	5	5.0 5.0
	Iron and steel	7	1	45	4	48	5	4.3 4.0
	Oil and gas Scope 1 and 2	20	1	23	4	57	5	4.0 ⁽¹⁾ 4.5
Food	Oil and gas Scope 3	49	1	25	4	26	5	2.8 ⁽¹⁾ 4.6
	Agriculture	–	–	50	4	50	5	4.5 4.5
	of which agriculture primary farming	–	–	50	4	50	5	4.5 ⁽¹⁾ 4.4
Manufacturing	of which agriculture LULUCF	–	–	39	4	61	5	4.6 4.9
	Building materials							
	of which cement	6	2	18	4	76	5	4.7 2.1
Water and waste	Water and waste							
	of which waste	6	3	36	4	58	5	4.5 4.5

(1) Data quality score of 1 represents the use of customers reports with emissions data verified by a third-party auditor. A score of 2 represents use of data from customers reports without third-party verification and a score of 3 represents use of production data to estimate emissions.

(*) Within the scope of EY assurance. Refer to page 10.

To estimate financed emissions by sector, we look at emissions on a customer basis. For the residential mortgages and commercial real estate sectors, we use EPC ratings to estimate emissions. For other sectors, the following approach is applied:

- Where available, we use customers' published financed emissions to estimate NatWest Group's financed emissions. These are sourced from third parties who have processes in place to gather and validate this data. We also use published production capacity data where available.
- Where published financed emissions are not available, we use other externally published financial and non-financial data to estimate emissions e.g. customer revenue data to estimate production levels or emissions based on a sectoral-average revenue intensity factor.
- For customers for which externally published emissions or other data are not available, we estimate emissions based on the emissions for other customers in the sector, assuming that the emissions profile for customers for which published data is not available, is comparable to the rest of the customers within the same sector.

Purchased carbon offsets are not taken into consideration as part of our footprint modelling in order to provide a true reflection of emissions produced. Sequestration via our LULUCF sector is modelled in line with best practice.



Estimates of financed emissions continued

Overview of data limitations

There are various data limitation challenges associated with the estimation of financed emissions due to the lack of available, granular, reliable and verifiable customer and counterparty data. In addition, other limitations on the estimation of financed emissions include:

- **Lag effect of availability of customer data:** While we have estimated emissions for on-balance sheet lending and investment at December 2021, 2020 and 2019, published customer data may not always correlate to these dates. We source customer data from external third parties who specialise in collating data from published reports. While we look at data corresponding to NatWest Group balance sheet dates for which emissions are being estimated, underlying customer data may relate to different dates. This may result in a lag in reflecting any changes in customer circumstances within NatWest Group's financed emissions.
- **Decarbonisation of the power grid:** Scope 2 emissions relate to emissions from purchased sources including electricity. Given the UK Government's legislated net zero 2050 target per the Climate Change Act amendment published in June 2019 and the announcement in the Energy White Paper updated in December 2021 of full decarbonisation of the power grid by 2035, and accelerated roll-out of offshore wind deployment, the UK is experiencing rapid decarbonisation of the power grid including a decline of coal's share as fuel for the UK power grid to almost zero in 2022. There may be a lag in decarbonisation of the power grid and the reporting by customers of the resulting reduction in Scope 2 emissions. To minimise the extent of overstatement of Scope 2 emissions, we have adjusted for the estimated impact of decarbonisation of the power grid between the year of EPC assessment and year of estimation of emissions for residential mortgages and commercial real estate. For other sectors, Scope 2 emissions may be overstated to the extent of benefit from power grid decarbonisation since the previous reporting date of the customer.
- **Estimation of emissions based on on-balance sheet exposures:** Consistent with the PCAF Standard, we estimate emissions on on-balance sheet lending and investment only. As a result, commitments made to customers that haven't been drawn by the customers at the date of calculation are excluded. This may result in a variation in financed emissions from year-to-year as a result of customer drawdowns and repayments.
- **Susceptibility to variation year-on-year:** As noted previously, we use customer emissions, production and revenue data to estimate financed emissions. Customer revenue and production are susceptible to change for various reasons including most recently, the impact of COVID 19, as well as consolidation in the sector, changing supply/demand market conditions, new entrants, and changes in the policy or funding environment resulting in variation in NatWest Group financed emissions year-on-year. As customers' disclosures develop to include their emissions, the reliance on other metrics will reduce. In the meantime, variation in our financed emissions may not always reflect changes in customers' emissions, but could result from changes in other factors used to estimate emissions in the absence of externally published emissions by customers.

• **Emissions intensities reflect averages for the sector:** Emissions intensity estimates are not comparable across different financial institutions as they are based on data related to NatWest Group customers and may be higher or lower than the average across other financial institutions.

• **Double counting of Scope 3:** Scope 3 emissions represent emissions across the value chain for a given sector including upstream emissions, such as in processing the rare earth metals which go into the electronics in a wind turbine and downstream emissions such as emissions from losses in the power grid during operation of the wind turbine. Our disclosure of Scope 3 emissions is currently limited to just the oil and gas extraction, automotive manufacture and land transport sectors. However, it is a known issue of the methodology that 'double counting', whereby the Scope 1 or 2 emissions for a given sector may correspond to Scope 3 for another sector, which uses the outputs of the first sector as an input, cannot be entirely avoided since the allocation of emissions in the potential overlap is difficult to estimate. As a result there is a likelihood of double counting of Scope 3 emissions where our customers could be in the same value chain as other NatWest Group customers. Currently, our customers do not disclose who their suppliers or customers would be, thus making the identification of potential double counting of our Scope 3 emissions very difficult - and the possibility of double counting likely.

• **Scope 3 definition differences:** Definition of Scope 3 applied by customers within a sector may include different activities. This could result in variation in Scope 3 emissions reported by customers within the same sector. Limitations regarding Scope 3 emission estimates are noted in the PCAF Standard: "PCAF acknowledges that, to date, the comparability, coverage, transparency, and reliability of Scope 3 data still varies greatly per sector and data source".

We will continue to work with customers to encourage them to publish emissions disclosures. In 'A roadmap to mandatory climate-related disclosures' (November 2020), Her Majesty's Treasury (HMT) set out regulators' intentions to require mandatory TCFD climate-related disclosures across the UK economy by 2025. In addition, from February 2022, the FCA Policy Statement on 'Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations' introduced new Listing Rules that require commercial companies with a UK premium listing to make climate-related disclosures, consistent with TCFD, on a 'comply or explain' basis. Further, as of 5 April 2022, The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 were published, which make climate-related financial disclosures mandatory for certain publicly quoted companies, banks, insurance companies and large private companies. These legal and regulatory expectations will help enhance the quality of emissions data available for use by NatWest Group to estimate our financed emissions.

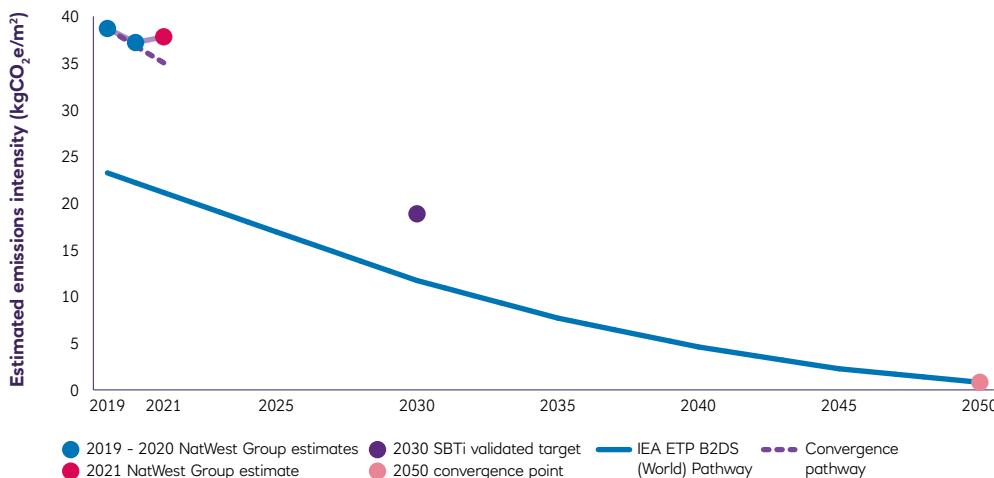


Estimates of financed emissions continued

Pages 82 to 87 include details on methodologies used to estimate financed emissions for sectors analysed. Also included are graphs for each sector which show the (i) external scenario pathway (ii) estimated convergence points for 2020, 2021, 2030 and 2050 based on a 2019 baseline; (iii) NatWest Group estimated physical emissions intensity for 2019, 2020 and 2021 and (iv) an assessment of NatWest Group 2021 estimates and the 2021 converge points.

Property

Residential mortgages



Residential mortgages

Residential mortgages comprise 46% of the NatWest Group loans and advances at 31 December 2021 (31 December 2019 44%). Since 2019, absolute emissions have increased by 2% while physical emissions intensity decreased slightly over the same period, reflecting the continued focus on customer transition and improvement in EPC ratings since 2019, and improvement in the availability of EPC data.

To estimate financed emissions, we used both EPC ratings and original Loan to Value (LTV) in line with the PCAF Standard.

- EPC data is an estimate of the underlying climate impact. EPC data is sourced from publicly available information. As EPC ratings only need to be updated every 10 years or after significant retrofits, at the point of sale or if leased, not all properties have current EPC ratings. Refer to section 5.2 for details on EPC data sourcing and limitations. Where EPC data is not available, a scaling factor is applied to estimate absolute emissions and floor space. We have assumed that the population for which EPC data has not been obtained is reflective of the population where such data was available.
- EPC data has not been adjusted for any assumed energy efficiency changes to the property since the date of inspection. For Scope 2 absolute emissions estimates, EPC data has been adjusted only for the decarbonisation of the UK power grid between the year of inspection and date of estimation of financed emissions.

Original LTVs have been calculated based on outstanding loan balance at the calculation date, divided by original property values at the time of mortgage origination.

We have used the IEA ETP B2DS World pathway to estimate the physical emissions intensity reduction of 49% required by 2030, as validated by the SBTi as science-based.

CRE

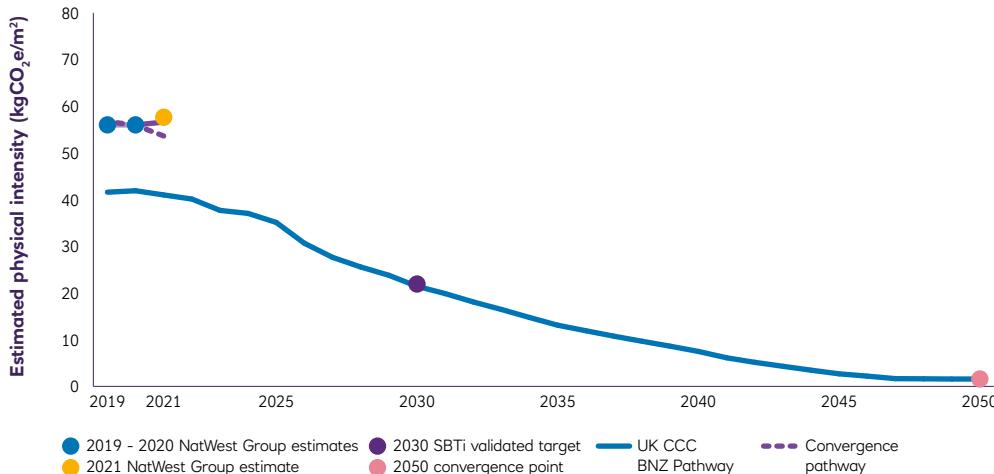
Amounts analysed of £15.6 billion at 31 December 2021 (31 December 2019 £17.7 billion) include lending for the purchase, refinance and development of commercial real estate. Since 2019, absolute emissions have decreased by 22% reflecting the decrease in lending balance.

To estimate financed emissions, we used both EPC ratings and property values. Financed emissions reflect Scope 1 and 2 emissions related to the energy use of buildings financed, during their operation (energy consumed by the property's occupants and shared facilities).

- We use EPC data to estimate emissions for CRE lending, aligned with the methodology used for residential mortgages.
- Domestic EPCs are adjusted to reflect improvements in the electricity grid since the date of EPC inspection. For properties where the EPC inspection date has not been obtained (non-domestic), the adjustment is applied for the average change in emissions intensity in the ten years prior to the reporting year.
- Where EPC data is not available, emissions are estimated using average emissions based on property type and region from properties for which EPCs are available. This assumes that the population for which EPC data is available is reflective of the population where such data was not available.
- In cases where multiple properties are secured by lending facilities, to estimate financed emissions at a property level, we apportioned loan values to underlying properties so emissions can be assessed based on EPC ratings of underlying properties.
- To calculate the attribution factor for our share of each property's emissions, we have used property valuation at origination in line with the PCAF Standard.

We used the UK CCC BNZ scenario to create a decarbonisation trajectory for this sector, estimating that the physical emission intensity of our CRE loans and investment portfolio needs to reduce by 60% by 2030, as validated by the SBTi as science-based. The key assumptions underlying the pathway relate to improving energy efficiency, replacing fossil fuels and decarbonisation of the grid.

Commercial real estate (CRE)



2021 NatWest Group estimate - RAG status

Under or equal to the convergence pathway

Above convergence pathway by up to 5%

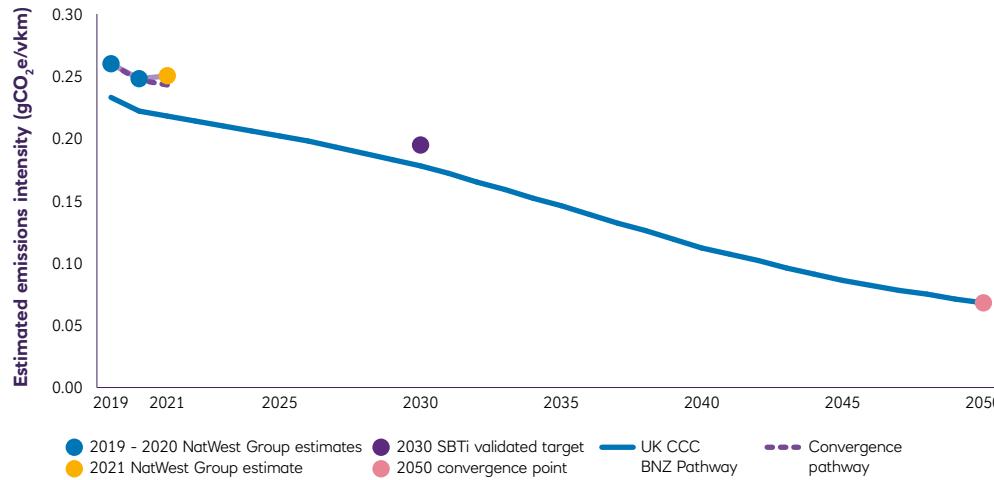
Above convergence pathway by more than 5%



Estimates of financed emissions continued

Mobility

Automotive manufacturing



Automotive manufacturing

Since 2019, absolute emissions have increased by 40%, primarily related to Scope 3 emissions, reflecting increases in lending and a marginally lower emissions intensity.

To estimate financed emissions we included analysis of the manufacture of motor vehicles, motorcycles, caravans, trailers, and semi-trailers.

- Scope 1 and 2 emissions were either directly sourced from a customer's published emissions data or estimated using revenue or economic intensities, where possible.
- For Scope 3 emissions estimation, well-to-wheel emissions are estimated using well-to-tank and tank-to-wheel emissions based on sales data for 88% of the lending using BEIS emission factors from their [Greenhouse gas reporting conversion factors 2021 disclosure](#). Scope 3 emissions for the remaining 12% lending were estimated based on their relative exposure.
 - i. Well-to-tank emissions result from the production, processing, and delivery of fuel before combustion in an automobile engine.
 - ii. Tank-to-wheel emissions relate to the combustion of fuel in an automobile's engine, released directly at the tailpipe of the vehicle.
- Both well-to-tank and tank-to-wheel emissions are estimated for Scope 3 emissions as both sets of activities are required for the automobile to operate. As noted previously, estimation of Scope 3 emissions, particularly within the oil and gas, transportation, and automotive sectors, introduces the potential for double counting of emissions.

We used the IEA ETP B2DS World scenario to estimate the physical emissions intensity reduction of 24% required by 2030, validated by the SBTi as science-based. Key assumptions underlying the pathway are the electrification process of passenger travel and assumed decrease in demand for passenger travel and long-term emissions reduction due to the use of alternative energy carriers. Refer to the mobility systems within section 3.4 for further details.

2021 NatWest Group estimate - RAG status

■ Under or equal to the convergence pathway

■ Above convergence pathway by up to 5%

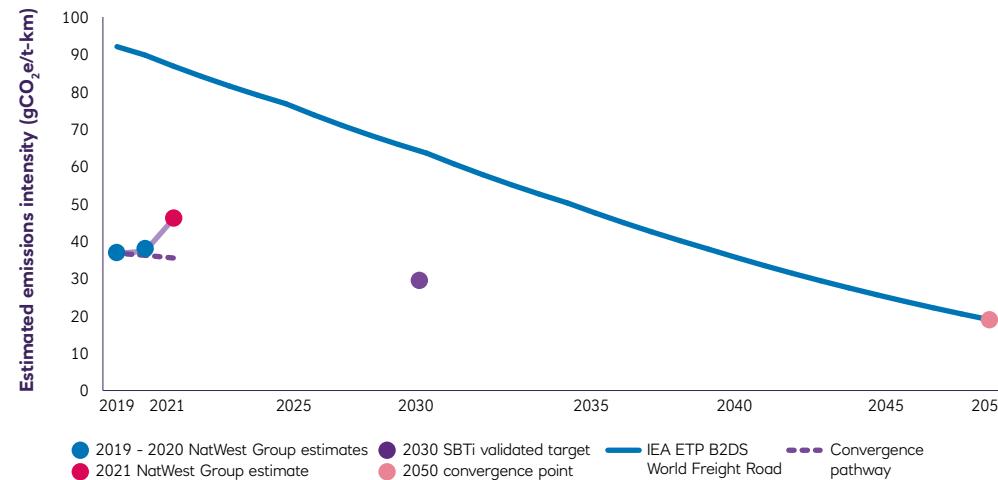
■ Above convergence pathway by more than 5%



Estimates of financed emissions continued

Mobility (Continued)

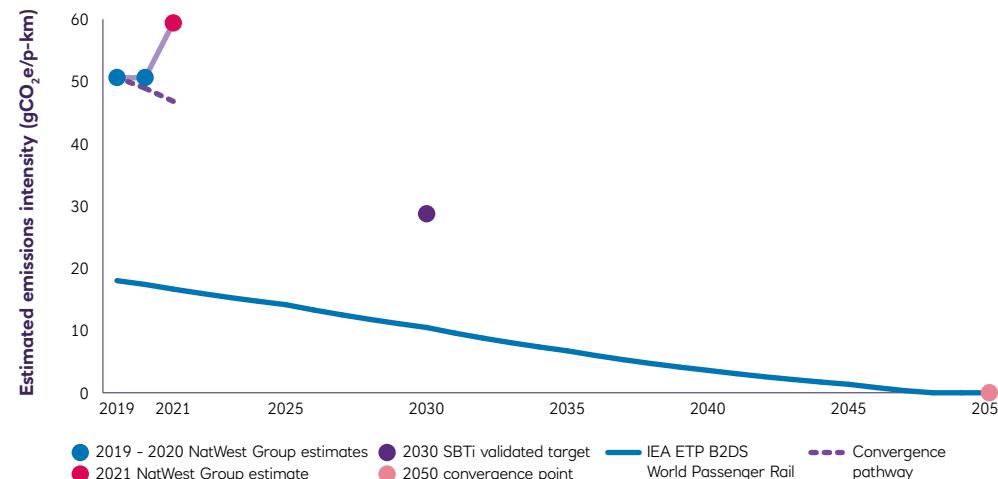
Land transport – Freight road



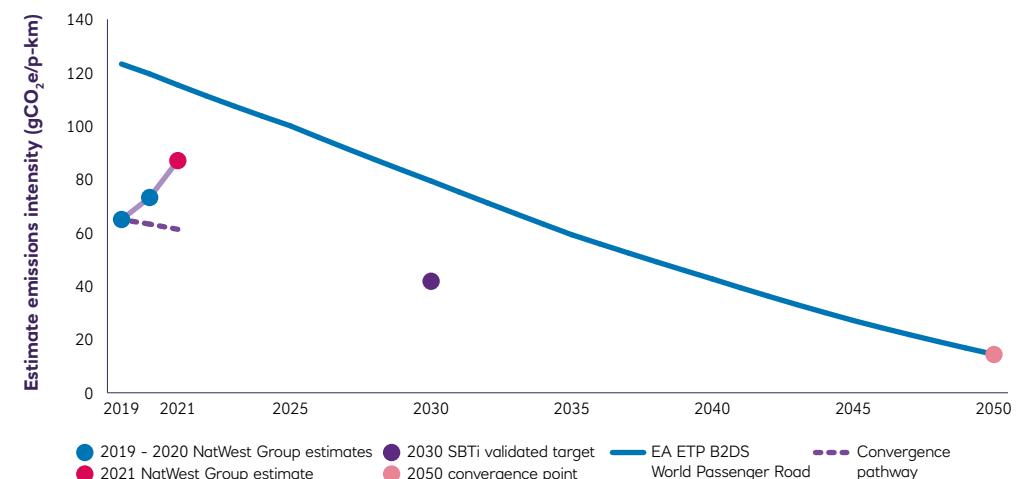
This comprises all passenger transport made by light duty and non-light duty vehicles (passenger road), rail and freight, including coach services and companies renting automobiles. Since 2019, absolute emissions reduced by 26% while emissions intensity increased across freight road, passenger rail and passenger road.

Separate scenarios have been used for subsectors within the land transport sector, to reflect different metrics and underlying variables. Reductions of 19% on freight road transport, 42% on passenger rail transport and 31% on passenger road transport are required to align to the IEA ETP B2DS World scenario. These physical emissions intensity reductions by 2030 have been validated by the SBTi as science-based.

Land transport – Passenger rail



Land transport – Passenger road



2021 NatWest Group estimate – RAG status

Under or equal to the convergence pathway

Above convergence pathway by up to 5%

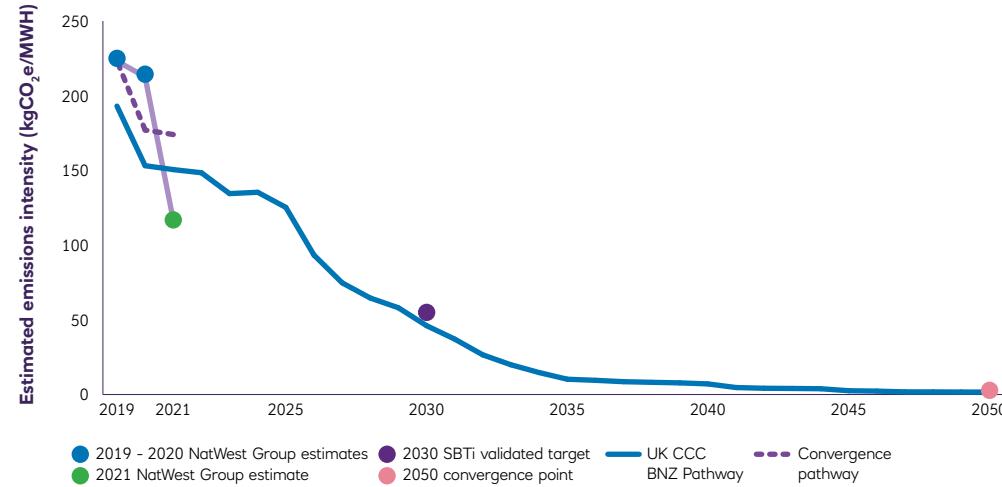
Above convergence pathway by more than 5%



Estimates of financed emissions continued

Energy

Electricity generation



Electricity generation

Since 2019, absolute emissions have reduced by 78% and emissions intensity has significantly decreased reflecting increased focus on lending related electricity generated by renewables. This is aligned with NatWest Group's status as a leading lender to the UK power and renewables sector over the last 10 years.

For the estimation of financed emissions and emission intensities we have analysed customers engaged in power and heat generation as their primary activity in alignment with the SBTi definition of electricity generation. The approach to estimate financed emissions is outlined below:

Direct emissions: Where available, we have used published emissions for customers.

Construction projects: Projects under construction were assigned nil emissions as these are not currently generating electricity.

Capacity estimation: Where available, production capacity data was used to estimate electricity production and related emissions based on the average performance of the technology of the power plant. We used customer-level production capacity data to estimate production, based on average load factors from BEIS (percentage of time a plant runs through the year, based on supply/demand dynamics caused by dispatch costs and wholesale power prices). We then multiplied the resulting production with UK-level average emissions factors from BEIS (emissions per MWh of electricity generated by a particular technology, such as natural gas).

Identified renewables: Projects that generate electricity from renewable sources generate no Scope 1 emissions.

Revenue intensity: Where emissions and production data are not available, we use revenue emissions intensities, the PCAF database and revenue production intensity. Specifically, we multiply customer-level revenue by average revenue intensity factors for power generation (emissions per £ of revenue). This assumes that all customers in the electricity generation sector have similar cost/revenue structures and that the sector operates as a free market, absent of monopoly rents. Average UK level statistics were used for estimating Scope 1 revenue intensity while PCAF revenue intensity estimates were used for estimating Scope 2 emissions.

For the electricity generation sector, physical emissions intensity is measured in units of kilogram of CO₂ equivalent per megawatt hour (kgCO₂e/MWh). To estimate the reduction in emissions intensity required by 2030, we used the UK CCC BNZ scenario, which requires a 76% reduction in emissions intensity relative to a 2019 baseline. The reduction in physical emissions intensity by 2030 has been validated by the SBTi as science-based.

CCC estimates assume a decrease in carbon intensity of electricity generation in a phased manner with:

- Focus during 2020-2030 on **phase-out of coal-based electricity generation** and deployment of low-cost renewables at scale;
- Focus during 2030-2040 on **displacement of unabated gas** by 2035 with low carbon alternatives e.g. renewables; and;
- Operating a near-zero electricity system during the 2040s.**

2021 NatWest Group estimate - RAG status

Under or equal to the convergence pathway

Above convergence pathway by up to 5%

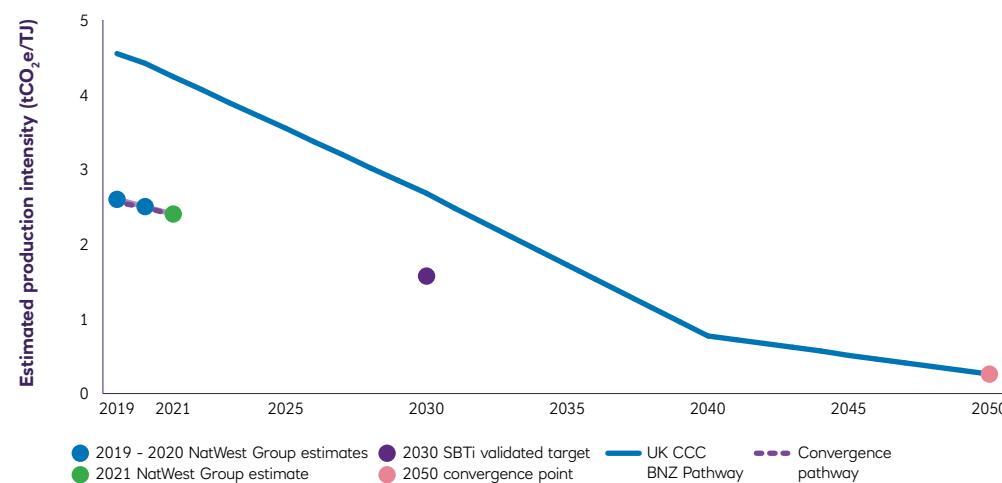
Above convergence pathway by more than 5%



Estimates of financed emissions continued

Energy (Continued)

Oil and gas



Oil and gas

Since 2019, absolute emissions have reduced by 69% reflecting reduced lending aligned with our climate ambition with an aim to end harmful activities.

In addition to estimating Scope 1 and 2 emissions aligned with other sectors analysed, we have also estimated Scope 3 financed emissions upstream activities related to extraction, as prescribed by the PCAF Standard on Financed Emissions, as these activities have a high climate impact.

- Emissions intensity was estimated by considering the location of main areas of operation for customers across the Norwegian North Sea and five sub-regions of the North Sea. For each of these regions, the physical emissions intensity has been derived from publications of the Norwegian Petroleum Directorate and of the North Sea Transition Authority. The estimated emissions intensity for NatWest Group was calculated as the weighted average of the emissions intensity of each customer, based on its location of operation.
- Our estimated Scope 3 financed emissions are calculated using the published Scope 3 emissions of our customers, while published emissions from the wider industry are used to calculate the industry revenue intensity.
- We have used different pathways for Scope 1 and 2, and Scope 3 emissions as the underlying drivers for emissions generation, as well as for their reduction, are likely to be different.
- We have used the UK CCC BNZ scenario to estimate physical emissions intensity reductions required by 2030 for Scope 1 and 2 emissions. Scope 1 and 2 emissions arise from processes related to the supply of fuel e.g. extraction, production and related activities of oil and gas companies.

We have used IEA NZE scenario for Scope 3 emissions resulting from the downstream combustion of oil and gas.

As a result, while Scope 1 and Scope 2 emissions may be reduced by adoption of more efficient production methodologies, Scope 3 emissions reductions will require demand reduction through behavioural changes, fuel switching and electrification of combustion processes.

NatWest Group aims to align its Scope 1, 2 and 3 portfolio temperature score by loan value from 3.2°C in 2019 to 2.3°C by 2030, as validated by the SBTi as science-based. The temperature rating estimate reflects potential warming in 2100 above pre-industrial levels based on current emissions targets set by customers within the sectors covered by the assessment. Where available, we used GHG emissions reduction targets disclosed by customers through CDP to calculate temperature scores for each customer. Customers who did not have externally disclosed targets through CDP were assigned a default score of 3.2°C.

Targets set by customers are expected to become more ambitious, aligned with expected regulatory developments including disclosure requirements. This will reduce the use of default score of 3.2°C, currently allocated to customers, replaced by actual temperature ratings linked to their targets. As a result, NatWest Group portfolio temperature rating is expected to decrease over time, eventually converging to 1.5°C. Further analysis of the SBTi temperature rating methodology is available within the [Measuring Portfolio Alignment report](#).

2021 NatWest Group estimate - RAG status

■ Under or equal to the convergence pathway

■ Above convergence pathway by up to 5%

■ Above convergence pathway by more than 5%



Estimates of financed emissions continued

Food

Agriculture – Primary farming



Primary farming

Financed emissions were estimated for primary farming activities (including fishing) and Land-Use, Land-Use Change and Forestry (LULUCF) with analysed exposures amounting to £4.1 billion at 31 December 2021 (£4.0 billion at 31 December 2019). Since 2019, emissions have decreased by 4% and emissions intensity increased.

To estimate financed emissions, we used revenue intensity by activity from the [Exiobase](#) database. This approach is necessary as primary farming activities do not have a homogenous unit of output base (i.e. farmers sell different products).

- Exiobase is a global, detailed multi-regional environmentally extended supply use table and input-output table. Exiobase was developed by harmonising and detailing supply use tables for a large number of countries, estimating emissions, and resource extractions by industry.
- Exiobase was used to estimate revenue emissions intensity for different categories of primary farming at the subsector level (such as cereal growing, dairy farming, etc). We then mapped the NatWest Group's primary farming categories to the Exiobase subsectors in order to use customer-level revenue data in conjunction with the Exiobase revenue emissions intensities, to estimate emissions for primary farming.

We used the UK CCC BNZ scenario to create a pathway to 2050 net zero, estimating that the emission intensity of Primary Farming would need to reduce by 27% by 2030.

- Emission intensity was estimated using revenue projections for the agriculture sector in the UK to 2050 based on the assumption that food demand grows in line with the World Bank's population forecasts for the UK.
- The estimated convergence points for the agriculture sector are based on the estimates for a change in growth rate of population to determine agricultural output through 2050. This assumption draws on data from the World Bank population estimates (published annually).

LULUCF

The agriculture sector has the potential for reduction in emissions and mitigation can be achieved through activities in the LULUCF sector that increase the removal of greenhouse gases from the atmosphere or decrease emissions by halting the loss of carbon stocks.

During 2022, we analysed exposures to LULUCF-related activities and will continue to work with agriculture customers to support LULUCF activities further. Our work with the Sustainable Food Trust on the Global Farm Metric will support this by providing detailed farm information so we can work with customers and support their transition.

2021 NatWest Group estimate - RAG status

█ Under or equal to the convergence pathway

█ Above convergence pathway by up to 5%

█ Above convergence pathway by more than 5%



Estimates of financed emissions continued

Methodologies, standards and standard setters

The table below summarises the various collaborations and guidance NatWest Group has used to develop methodologies for estimating financed emissions:

Organisation	Use in NatWest Group methodology
Partnership for Carbon Accounting Financials (PCAF)	Where available, NatWest Group uses methodologies in the PCAF Standard for Financed Emissions first published in November 2020. In addition, we have used PCAF data quality and disclosure principles to guide our work. The second edition of the PCAF Standard for Financed Emissions was published in December 2022. Our approach continues to be guided by the PCAF Standard and we will incorporate the latest updates during 2023.
Science Based Targets initiative (SBTi)	NatWest Group joined SBTi following the launch of financial sector science-based targets guidance in 2020. We have used their Sectoral Decarbonisation Approach (SDA), where available, to assess initial emissions intensity estimates for 2030, for certain sectors. We have also followed SBTi and PCAF guidance where possible to choose the most appropriate emissions intensity metrics. During 2022, we published our 2030 sector targets validated by the SBTi as science-based.
Climate Change Committee (CCC)	The CCC published the <i>Sixth Carbon Budget, the UK's path to net zero</i> in December 2020. As a largely UK-focused bank, we selected the UK CCC's 'Balanced net zero' pathway to determine emission reductions required by 2030, where possible. In developing the initial iteration of our Climate transition plan, we have used the UK CCC's Progress in reducing emissions: 2022 Report to Parliament as the basis of assessing current status of government policies.
The International Energy Agency (IEA)	We have used the IEA Beyond 2°C World Scenario (B2DS World) from the Energy Technology Perspectives (ETP) report for assessing estimates for emissions reduction by 2030 for sectors where the B2DS World scenario was more ambitious than the UK CCC's BNZ scenario. For assessing reductions in Scope 3 emissions for the oil and gas sector, we have used the IEA Net Zero Emissions (NZE) scenario, published in 2021.

Scenario selection

In addition to the estimation of baseline and current financed emissions, we estimate emissions reductions required in future years and have also set sectoral targets validated by the SBTi as science-based. This underpins the initial iteration of our Climate transition plan and identification of further opportunities to support our customers' transition to net zero.

We use scenarios that are recognised in the industry and developed by independent and respected organisations to assess forward-looking pathways for different sectors. We have followed the SBTi requirement of selecting scenarios that are at least as ambitious as those in the SBTi SDA tool. We also tried to use as few scenarios as possible to keep the overall picture consistent. However, we had to compromise to keep our sectoral pathways ambitious and cover various sectors. For each sector, we compared the IEA's B2DS World scenario against the UK CCC's BNZ scenarios and selected the most ambitious pathway to 2030. We used IEA NZE for oil and gas (Scope 3 emissions) as it is the only scenario to contain this pathway. However, we did not use it for other sectoral pathways as it is less ambitious for most of the sectors. We will continue to assess updates in scenarios as these are published and incorporated in methodologies, including SBTi.

The main assumptions of the scenarios used for each sector and their potential impacts on emissions are noted on pages 82-87 and were discussed in more detail in our [2021 Climate-related Disclosures Report](#). Updates on policy assumptions were assessed as part of our work on developing the initial iteration of our Climate transition plan, included in section 3.4. The UK CCC and IEA scenarios have similar assumptions on technology deployment and policy support, so this approach enables NatWest Group to consider the impact of its financing and further support we can provide to customers to support their transition to net zero.

For estimating physical emissions intensity reductions required by 2030 we used different scenarios than for our internal scenario analysis, which is based on the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) scenarios. Although NGFS produced scenarios which satisfy the 'well below 2°C' requirement of the Paris Agreement (e.g. Net Zero 2050 scenario), they do not contain enough sectoral detail to set sectoral decarbonisation targets and support our work on financed emissions. However, since they have a similar end-of-century temperature target, our sectoral pathways could be considered broadly consistent with the Net Zero 2050 scenario used for our scenario analysis work.

Our internal climate scenario analysis, carried out to support participation in the CBES exercise allowed us to assess our exposure to climate-related risks across our lending and debt securities book, using NGFS produced scenarios which satisfy the 'well below 2°C' requirement of the Paris Agreement. The outcome from our internal scenario analysis was included in the assessment of heightened climate-related risk sectors which has informed our work on the analysis of financed emissions as well as developing the initial iteration of our Climate transition plan. We have continued to build our measurement capabilities to support the assessment of climate-related risks and opportunities within NatWest Group's loans and investments using external scenarios aligned with the 2015 Paris Agreement. We have set sector targets validated by the SBTi as science based for 79% of our lending book as at 31 December 2019 and 57% of debt securities and equity shares, excluding sovereign debt securities. As noted on the following page, the 2030 targets, validated by the SBTi, are based on external scenarios including the UK CCC BNZ scenario as well as the IEA B2DS scenario.



Estimates of financed emissions continued

The table below provides an overview of the standards, methodologies and scenarios utilised as inputs for assessing financed absolute emissions as well as physical emissions intensities (impact per unit of physical activity) or revenue emissions intensities (impact per unit of economic output) – dependent on the sector.

System	Sector	Financed emissions standard	Scenario	Approach ⁽¹²⁾ used to estimate physical emissions intensity in 2030	SBTi target setting methodology ⁽¹²⁾	Physical/Revenue emissions intensity metrics used to estimate reduction required by 2030
Property	Residential mortgages	PCAF	IEA ETP B2DS (World)	SDA	SDA	kgCO ₂ /metre ²⁽¹⁾
	Commercial real estate	PCAF	UK CCC BNZ	SDA	SDA	kgCO ₂ /metre ²⁽¹⁾
	Construction	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽²⁾
Mobility	Automotive manufacturing	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ e/vkm ⁽³⁾
	Land transport and logistics					
	of which freight road	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /tkm ⁽⁴⁾
	of which passenger rail	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /pkm ⁽⁵⁾
	of which passenger road	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /pkm ⁽⁵⁾
	Airlines and aerospace					
	of which aviation	PCAF	IEA ETP B2DS (World)	ACA ⁽¹²⁾	TR	N/A ⁽⁶⁾
Energy	Shipping	PCAF	IEA ETP B2DS (World)	ACA ⁽¹²⁾	TR	N/A ⁽⁶⁾
	Power utilities					
	of which electricity generation	PCAF	UK CCC BNZ	SDA	SDA	kgCO ₂ /MWh ⁽⁷⁾
	Aluminium	PCAF	IEA ETP B2DS (World)	SDA	SDA	tCO ₂ e/tonne ⁽⁸⁾ Aluminium
	Iron and steel	PCAF	IEA ETP B2DS (World)	SDA	SDA	tCO ₂ e/tonne ⁽⁸⁾ Iron and steel
	Oil and gas (Scope 1 and 2 emissions)	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/TJ ⁽⁹⁾
Food	Oil and gas (Scope 3 emissions)	PCAF	IEA NZE	ACA ⁽¹²⁾	TR	N/A ⁽¹⁰⁾
	Agriculture primary farming	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽²⁾
	Agriculture LULUCF	PCAF	UK CCC BNZ	SDA		tCO ₂ e/£million ⁽²⁾
Manufacturing	Building materials					
	of which cement	PCAF	IEA ETP B2DS (World)	SDA	SDA	tCO ₂ e/tonne ⁽⁸⁾ Cement
Water and Waste	Water and waste					
	of which waste	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/tonne ⁽¹¹⁾ Waste

(1) kgCO₂/m² is kilograms of carbon dioxide equivalent per square metre of financed floor space.

(2) tCO₂e/£million is tonnes of carbon dioxide equivalent emitted per million of revenue.

(3) gCO₂e/vkm is grams of carbon dioxide equivalent per kilometre travelled over the lifetime of a vehicle financed by NatWest Group.

(4) gCO₂/tkm is grams of carbon dioxide equivalent per kilometre which one tonne of freight financed by NatWest Group travels.

(5) gCO₂/pkm is grams of carbon dioxide equivalent per kilometre travelled by one passenger, based on the travel activity financed by NatWest Group.

(6) SBTi guidance for aviation and shipping permits the use of Absolute Contraction Approach for estimating reduction in emissions in absolute terms as a percentage reduction between 2019 and 2030 instead of reduction per physical unit of activity.

(7) kgCO₂/MWh is kilograms of carbon dioxide equivalent for the operation of a 1 megawatt power plant for one hour, as financed by NatWest Group.

(8) tCO₂e/tonne is tonnes of carbon dioxide equivalent per tonne manufactured.

(9) tCO₂e/TJ is tonnes of carbon dioxide equivalent per terajoule of energy extracted as a result of financing by NatWest Group.

(10) Oil and gas Scope 3 emissions arise from combustion of fuel. As a result, estimates for reduction are based on absolute emissions, aligned with the IEA NZE scenario.

(11) tCO₂e/tonne is tonnes of carbon dioxide equivalent per tonne of waste generated.

(12) Sectoral Decarbonisation Approach (SDA), Absolute Contraction Approach (ACA), Temperature Rating (TR).



5.6

Estimates of facilitated emissions from corporate bond underwriting

Banks play a key role as facilitators between issuers and investors, by offering and conducting financial intermediation activities critical to the functioning of capital markets. Estimates of facilitated emissions included in this section relate to NWM Group, including NWM N.V.

Methodology:

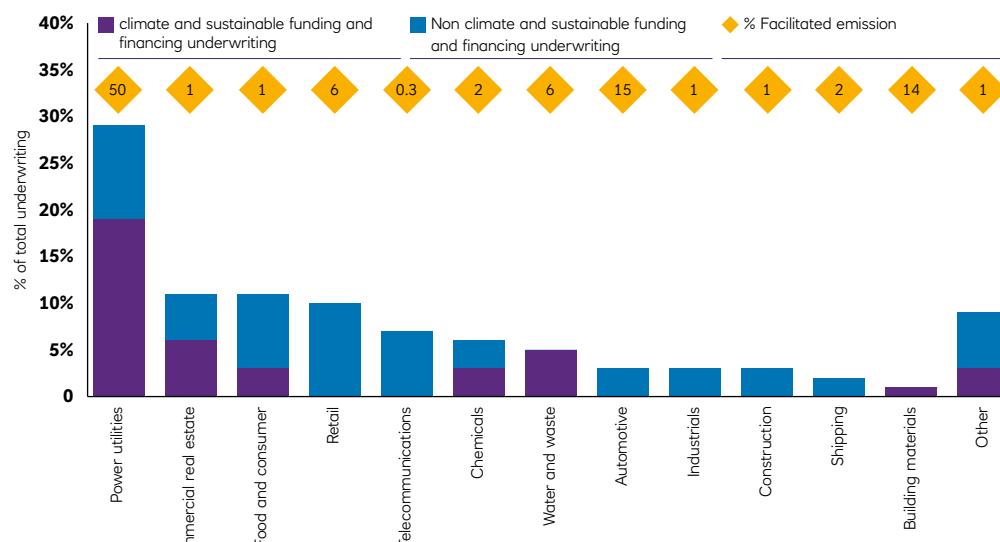
Although PCAF's own methodology for financed emissions accounting continues to develop to provide an industry-wide approach, there is an increasing demand for additional disclosure by facilitators, such as NatWest Group, to address intermediation activities, the associated facilitated emissions and their impacts.

Facilitation activities differ from on-balance sheet lending in two respects: they are off-balance sheet (representing services rather than financing) and they can take the form of a flow activity (temporary association with transactions) rather than a stock activity (recorded on the balance sheet). The PCAF working group, gathered to support the development of a standard to estimate facilitated emissions, agreed that facilitated emissions need to be reported separately from financed emissions and are not additive with financed emissions.

To support the development of a standard to measure and report facilitated emissions related to underwriting of corporate bonds capital markets transactions across the industry, NWM Group joined the PCAF Working Group on Capital Markets Activities in January 2022.

The PCAF working group published a proposed [methodology](#) for facilitated emissions for capital market instruments in September 2022 prior to its consultation period.

The chart below shows NWM Group's percentage of underwriting by corporate sector taking into consideration climate and sustainable funding and financing issuance with estimated facilitated emissions percentages in 2022. Estimated facilitated emissions percentage reflects the percentage for a sector based on total estimated facilitated emissions for NWM Group.



In the absence of a finalised standard, NWM Group has used the recommendations of the PCAF consultation paper as the basis of our methodology to inform the estimation of facilitated emissions.

Facilitated emissions metrics presented relate only to capital markets corporate bond underwriting activities (per PCAF) and not any other intermediation or flow activities and services such as secondary trading.

As PCAF guidance evolves, NWM Group aims to further develop and align its methodology to report on its facilitated emissions. For the time being, it is important to note that the amounts presented are estimates.

Underwriting is an important part of the NWM Group's business and the facilitated emissions related to this activity could potentially be significant. analysis on the bottom left indicates the following:

- The financed emissions from the power utilities sector constitutes 50% of NWM Group's estimated facilitated emissions, of which 63% are green bonds⁽¹⁾ that are expected to have a lower emissions footprint. However, the same emission intensity was applied regardless of issuance type.
- The second highest contributing sector is the automotive industry with 15% of the estimated facilitated emissions, while only representing 3% of NWM Group's total underwriting.
- Building materials make up 14% of the estimated facilitated emissions, however, all of these issuances, were green bonds⁽¹⁾.

The remaining 10 sectors contributed 21% to the estimated facilitated emissions analysis making up 66% of the total underwriting of which 20% were green and sustainability bonds⁽¹⁾.

NatWest Group's methodology used for reporting

- The [PCAF consultation paper](#) recommends splitting the responsibility among the transaction lead managers (passive and active) based on volumes, which we source from Dealogic. This determines the proportion of the 'facilitated' part of the transaction each arranger takes responsibility for, thus providing the volume against which facilitated emissions is estimated^(2,3). Co-managers are not counted and therefore such volumes are not taken into consideration
- The PCAF consultation paper defines an issuer as solely corporates that issue a debt or equity capital markets instrument. Financial institutions and sovereigns, supranationals and agencies issuers were out of scope for the initial terms of reference for the PCAF working group and the proposed methodology included in the consultation paper.
- NatWest Group has decided to apply a 100% weighting for the emissions estimation for the corporate bond capital markets transactions versus the [Global Systemically Important Banks](#) (G-SIB) alternative at 17%.
- Identifying emissions to customers: where available, economic emissions intensities included in section 5.5 are used for customers for which volumes have been sourced following steps 1 and 2 above. Economic emissions intensities are applied to volumes, to estimate facilitated emissions.
- Unmatched customers: for those customers that cannot be matched, the relevant sector averages are used^(4,5).
- Currently, green bonds do not have an explicit emissions footprint and therefore NatWest Group shows the breakdown of conventional versus green bonds to reflect the expected difference of estimated facilitated emissions associated with the bond underwriting.

Footnotes:

- NatWest Group 2021 CSFFI criteria published in October 2021 have been used to determine the assets, activities and companies that are eligible to be counted.
- NWM Group has chosen to recognise the entire volume amount in the year of underwriting as opposed to over the life of the security.
- Percentage underwriting refers to NWM Group's allocation, which is calculated using Dealogic tranche value face (GBP)/no. of tranche lead managers.
- NWM Group sources customer-level emission data if possible. Where customer-level data is not available, sector averages are used for emission intensities from 2021 or 2020 against 2022 underwriting volumes.
- The use of 2020 emission intensities may not incorporate recent changes in business activities and could result in the reporting of a higher rate of facilitated emissions for the sector.



Cautions about climate-related metrics, data and methodology challenges

Caution about climate metrics challenges.

Climate metrics, including aims, ambitions, estimates, forecasts, plans, projections and targets and other climate metrics used in this report, especially if they are forward-looking, merit special caution as they are more uncertain than metrics based solely on factual historical financial information.

Climate metrics in this report include, among others:

- estimates of historical emissions, such as financed emissions, absolute emissions, and various emissions intensity metrics, implied temperature rating or estimates of historical climate change, temperatures and other information; or
- forward-looking climate metrics, such as ambitions, targets, climate scenarios and emissions intensity pathways, and estimated climate projections and forecasts. See 'Caution about climate-related and other forward-looking statements and metrics in this report' below.

The evolution of climate change and its impacts is highly uncertain, as are the metrics and methodologies used to measure, estimate and report those impacts and emissions. Accordingly, both historical and forward-looking climate metrics are more inherently uncertain and, therefore, less reliable than metrics based on historical financial statements.

There are many significant uncertainties, assumptions and judgements underlying climate metrics that limit the extent to which climate metrics are reliable. The most important of these are:

1) Risks inherent in climate-related data

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, verifiable, reliable, consistent and comparable climate-related data. The financial sector is grappling with risks related to data availability and quality and access to data on a timely and verifiable basis. The most important of these risks are:

- Climate-related data may not be generally available from counterparties or customers or, if available, is generally variable in terms of quality and, therefore, may not be accurate, verifiable, reliable, consistent, or comparable.
- In the absence of accurate, verifiable, reliable, consistent, and comparable climate-related data, financial institutions necessarily rely on aggregated information based on high-level sector data developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions and therefore such data may not be accurate.
- Data is less readily available for some asset types and there may also be data gaps, that are filled using "proxy" or other data, such as sectoral averages, again developed in different ways.
- There is no single, global, cross-sector data provider that adequately and consistently covers the needed scope for data to analyse emissions and assess physical and transactional risks across operations and portfolios.

Voluntary and mandatory climate-related frameworks vary in their data quality measurement, and the way in which customers collect and disclose asset-level climate data also varies significantly.

- While regulators and standard setters begin to mandate additional disclosure of verified climate-related data by companies across sectors, there are potential gaps between needed and available data.

Poor quality and availability of high-quality historical and current emissions, or subsector data is currently a significant obstacle to the calculation of carbon-related metrics. The absence of widely available, detailed, accurate, verifiable, reliable, consistent and comparable and other high-quality climate and subsector-related information makes it challenging to accurately disclose or estimate metrics used to assess climate-related risks and opportunities.

- The availability of climate, industrial classification, energy use and efficiency data – including information used as a proxy for that data (e.g., EPC rating) – depends on a variety of public, private and civic sector sources. Historically, climate data was largely environmental and weather data was produced by government agencies. However, the challenge is finding the relevant sources if they exist, and then validating, cleaning, and standardising the data in an accessible form or format.

Climate metrics and data, the models, scenarios used to create them and the measurement technologies, analytical methodologies and services that support them remain in an incipient stage. Accordingly, the quality and interoperability of these models, technologies and methodologies, is also at a relative early stage. Significant gaps in sectors, subsectors and across asset classes are impeding not only climate risk management, but also the development of mitigation and adaptation strategies, as well as aspects of operations and credit risk and investment analysis that depend on data-informed processes.

2) Risks inherent in the lack of standardisation, transparency and comparability

- Many voluntary disclosure frameworks and methodologies for calculating climate metrics are new and evolving, leading to multiple metrics estimates that are not directly comparable.
- These differences are compounded by a lack of international coordination on data and methodology standards.

Existing estimation methods present significant challenges and the development of a more market accepted consistent way of measuring and reporting Scope 3 emissions across sectors where they are material and relevant is needed.

Where methodologies are publicly described, differences across data providers can still make resulting disclosures difficult to compare for investors and others evaluating climate exposure across their holdings.

3) Risks inherent in the reliance on assumptions, scenarios and future uncertainty

- Climate metrics are complex and require many methodological choices, judgements and assumptions.
- Temperature scenarios and climate metrics and data generally include a set of assumptions that incorporate existing or planned global or regional policies, a business-as-usual sociodemographic projection, and projections for technological progress (including negative emissions and sequestration technologies), none of which may happen as contemplated, and, therefore, the scenarios, climate metrics and data based on those assumptions, may be incorrect.
- Some assumptions attempt to compensate for existing data gaps, such as past emission trends or comparable and reliable company specific targets.
- Other assumptions rely on given climate scenarios and transition pathway models, the details of which can vary widely despite representing similar outcomes.
- Uncertainty around future climate-related policy in particular can contribute to greater variation in transition pathway models.
- Until other challenges are addressed, there may be a large resource burden associated with calculating and disclosing forward-looking metrics, which often require the assistance of one or more external data and methodology providers.



Cautions about climate-related metrics, data and methodology challenges continued

- In addition, design issues specific to financed emissions raise challenges, particularly around allocating emissions to the wide range of financial activities. Financed emissions from owning 1 percent of a company might include 1 percent of that company's emissions; a portfolio can rapidly double count if aggregate financed emissions include each underlying company's own Scope 3 upstream and downstream emissions. The calculation becomes significantly more complex with other activities, such as when a financial institution serves as a counterparty or is one of multiple underwriters of a financing.
- The preparation of this report requires the application of a number of key judgements and also requires assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include financed emissions, facilitated emissions and portfolio alignment and measurement of climate-related risk and operational emissions. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader.

4) Risk inherent in methodologies for estimating and calculating GHG emissions.

- The methodologies for estimating and calculating GHG emissions, financed emissions, whether absolute emissions or emissions intensities and other climate-related metrics (such as estimating facilitated emissions) are by comparison to financial metrics in their early stage of adoption and application and may vary widely in their approaches.
- Some methodologies use company-specific historical emissions data while others result in estimation of emissions based on sectoral or geographical data or averages. Of those that incorporate emissions targets, there are different criteria for the types of targets that can and cannot be used.
- Methodologies vary in their use of Scope 1, Scope 2, and/or Scope 3 GHG emissions. Some use only Scope 1 data, while others use Scope 1 and 2, and yet others take Scope 1, 2, and 3 GHG emissions into account.
- Certain methodologies take cumulative historical GHG emissions into account while others incorporate point-in-time assessments of emissions intensity.
- Methodologies may incorporate different climate-related scenarios or emissions pathways, or even utilise internal proprietary future emissions pathways.
- Certain methodologies may be better suited to assessing certain asset classes and may vary in whether some asset classes can be assessed at all.
- Variations in methodologies may also lead to under – or overestimates of implied temperature rise, and consequently an exaggerated indication of climate-related risk.

Moreover, some available methodologies may only include a limited number of technologies and indicators, while other important levers/indicators that are needed to understand transition risks and opportunities in certain sectors may not be included.

5) Limitations of climate scenario analysis and the models that analyse them

- The practice of modelling the impact of climate-related risks on the financial sector is improving rapidly but remains under development. As a result, there are currently a number of limitations with respect to data and analysis techniques, which should be borne in mind.
- Scenarios are not forecasts (they do not mean to predict future outcomes); rather they are projections of alternative plausible futures that are designed to build an understanding of the nature and size of changes that may occur in future. They do not reflect all possible future pathways.
- Predicting climate change and quantifying its impacts on the economy is inherently complex – in how the impacts of climate change will impact asset values, how companies will react to regulatory and market pressures, as well as how NatWest Group's customers will react and adapt to these impacts.
- Like any modelling, the further out the projection, the greater the uncertainties. When interpreting model outputs, it may be that the direction of change is more useful for decision-making than point estimates within one scenario's results.
- Climate scenarios and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty.
- Climate scenarios cannot fully capture all of the potential effects of climate, policy and technology driven outcomes. For example, the Intergovernmental Panel on Climate Change (IPCC) projects that substantial deployment of negative emissions technologies, such as biomass energy with carbon capture and storage (CCS), would be required to achieve a 1.5°C outcome, and many analysts draw similar conclusions about reaching 2°C. The cost and availability of such technologies has a significant effect on the estimated price of carbon that would be required to deploy them. Other things being equal, models that assume the availability of low-cost CCS or other as-yet-nascent technology will project more modest carbon prices to achieve stringent climate change mitigation goals. Models that assume limited availability of these technologies at low cost will project higher costs to achieve the same climate goals.
- Scientific understanding of climate change continues to develop. This may enable a more granular and precise understanding of some kinds of climate-related risks in future.
- Finally, models cannot fully capture the range of societal changes that could result from climate change. These could include changes in dietary preferences, migration patterns, and political preferences. As climate continues to change, decision-makers will respond in ways that can both create and alleviate risks. The costs of models do not fully capture the possibility of low-probability but high-impact risks and opportunities. Market actor and policymaker responses are complex and should be considered qualitatively along with a quantitative scenario analysis. Some of these limitations are inherent to many models but are in this case further exacerbated by the often-multi-decade time horizon and the complexity and interdependencies of the effects modelled, from ice sheets melting to agricultural yields and migration: To mitigate the limitations of scenarios and modelling, practitioners should analyse multiple scenarios with various underlying assumptions and parameters.

Over reliance by regulators or financial institutions on a limited number of the same prescribed models or scenarios (e.g., the NGFS scenarios) may amplify systemic climate-related risks.



Cautions about climate-related metrics, data and methodology challenges continued

Caution about judgments, assumptions and estimates, the lack of commonly accepted reporting practices, the non-comparability of information and the lack of definitions or standards.

The preparation of certain information in this report requires the application of a number of key judgments, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities. The reported measures in this report reflect good faith estimates, assumptions and judgments at the given point in time. There is a risk that these judgments, estimates or assumptions may subsequently prove to be incorrect and/or may need to be restated or changed.

Climate-related reporting in our industry is not yet subject to the same globally recognised or accepted reporting or accounting principles and rules as traditional financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for NatWest Group to follow or align to and climate-related measures between organisations in our industry may be non-comparable.

In addition, the maturity of underlying data, systems and controls that support non-financial reporting is generally considerably less sophisticated than the systems and internal controls for financial reporting and it also includes manual processes. This may result in non-comparable information between organisations and between reporting periods within organisations as methodologies develop. The further development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this report and the reader may therefore not be able to compare performance metrics, data points or targets from one reporting period to another, on a direct like-for-like basis. NatWest Group plans to continue to review available data sources and enhance its methodology and processes to improve the robustness of its climate-related reporting over time aligned with recognised industry developments.

Further to the above, there is currently no single globally recognised or accepted, consistent and comparable set of definitions or standards (legal, regulatory or otherwise) of, nor widespread cross-market consensus:

- as to what constitutes, a 'green', 'social' or 'sustainable' or having equivalent-labelled activity, product or asset; or
- as to what precise attributes are required for a particular activity, product or asset to be defined as 'green', 'social' or 'sustainable' or such other equivalent label; or
- as to climate and sustainable funding and financing activities and their classification and reporting.

Therefore, there is little certainty, and no assurance or representation is given that such activities and/or reporting of those activities will meet any present or future expectations or requirements for describing or classifying funding and financing activities as 'green', 'social' or 'sustainable' or attributing similar labels. We expect policies, regulatory requirements, standards, and definitions to be developed and continuously evolve over time.

Caution about references to websites.

- Reference to websites and other reports is made for information purposes only, and information found at such websites or in such reports is not incorporated by reference into this report. To the extent permitted by law, NatWest Group makes no representation, warranty or assurance of any kind, express or implied, or takes no responsibility or liability as to the fairness, accuracy, reliability, reasonableness, correctness or completeness with respect to (i) the third-party information found at any websites operated by third parties; or (ii) the information provided in sections 3.4 of this report (Case Studies).



5.8

Climate-related data and other forward-looking statements and metrics

Certain sections in this report contain climate-related and other forward-looking statements and metrics, such as aims, ambitions, estimates, forecasts, plans, projections and targets and other climate metrics, including but not limited to,

- NatWest Group's ambition to at least halve the climate impact of its financing activity by 2030 and align with the 2015 Paris Agreement;
- NatWest Group's ambition to become net zero by 2050 across its financed emissions, assets under management and operational value chain;
- NatWest Group's target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025;
- NatWest Group's aim to provide at least £10 billion in lending for EPC A or B rating residential properties between 1 January 2023 and the end of 2025 as a sub-set of its wider target to provide £100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025;
- NatWest Group's ambition that 50% of its mortgage book will have an EPC rating of C or above by 2030;
- NatWest Group's sector level emissions reduction targets validated as science-based by SBTi, climate scenarios and emissions intensity pathways, estimated climate projections and forecasts; and

NatWest Group's plan (i) not to provide reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers; (ii) that after 31 December 2025 not to renew, refinance or extend existing reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production; and (iii) not to provide reserve based lending and borrower base financing to upstream oil and gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic waters.

Words or phrases such as 'ambition', 'aim', 'anticipate', 'believe', 'budget', 'continue', 'could', 'effort', 'estimate', 'expect', 'forecast', 'goal', 'guidance', 'intend', 'intention', 'may', 'objective', 'outlook', 'plan', 'potential', 'predict', 'projection', 'seek', 'should', 'target', 'will', 'would' or similar expressions that convey the prospective nature of events or outcomes generally indicate other forward-looking statements.

There are many significant uncertainties, assumptions, judgements, opinions, estimates, forecasts and statements made of future expectations underlying these forward-looking statements which could cause actual results, performance, outcomes or events to differ materially from those expressed or implied in these forward-looking such statements.

The most important of these uncertainties and factors that could cause actual results and outcomes to differ materially from those expressed or implied in forward-looking statements are summarised in the 'Risk Factors' included on pages 404 to 425 of the NatWest Group 2022 Annual Report and Accounts (with special regard to the risk factors in relation to 'Climate and sustainability-related risks' that describes several particular uncertainties, climate and sustainability-related risks to which NatWest Group is exposed and which may be amended from time to time).

Other uncertainties and factors include, without limitation:

- the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the macroeconomic environment;
- uncertainty around future climate-related policy, including the timely implementation and integration of adequate government policies;
- the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to mitigate the impact of climate and sustainability-related risks;
- changes in customer behaviour and demand, changes in the available technology for mitigation;

- the roll-out of low carbon infrastructure;
- the availability of accurate, verifiable, reliable, consistent and comparable climate-related data;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- variation in approaches and outcomes – variations in methodologies may lead to under or overestimates, and consequently present exaggerated indication of climate-related risk;
- reliance on assumptions and future uncertainty (calculations of forward-looking metrics are complex and require many methodological choices and assumptions); and
- see also, Section 5.7 ('Cautions about climate-related metrics, data and methodology challenges') of this report.

Accordingly, undue reliance should not be placed on these statements.

Furthermore, changing national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development, are subject to different interpretations. There can be no assurance that these standards, practices, requirements and expectations will not be interpreted differently than what was NatWest Group's understanding when defining its climate-related ambitions and targets or change in a manner that substantially increases the cost or effort for NatWest Group to achieve such ambitions and targets.

No duty to update

The forward-looking statements contained in this report speak only as of the date we make them. Except to the extent legally required, we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements in this report, whether to reflect any change in our expectations regarding those forward-looking statements, any change in events, conditions or circumstances on which any such statement is based, or otherwise.

No offer of securities or investment

The information, statements and opinions contained in this report do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

This report, the information, statements and disclosure included in this report are not formally part of any offering documents and are not contractually binding. This report is not intended to form part of any communication of any offering issued under this report and it is not intended to be an advertisement for the purposes of the UK Prospectus Regulation and investors should not make any investment decisions based on the information included in this report.



NatWest
Group

NatWest Group plc
2022 Climate-related Disclosures Report
February 2023