



NatWest
Group

**Serving our
customers
every day**


NatWest Group plc

2023 Climate-related Disclosures Report

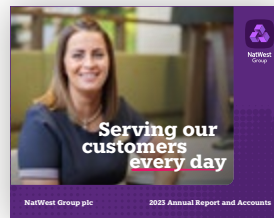
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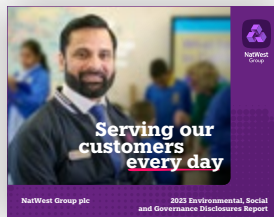
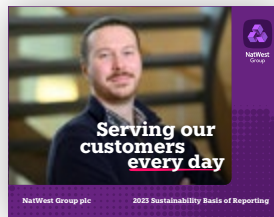
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 [Link to NatWest Group glossary and abbreviations](#)

Our 2023 reporting suite – available at natwestgroup.com



On the cover: Laura Locker, Senior Relationship Manager, helping farming businesses reduce energy costs and decarbonise.



NatWest Group climate ambition

Climate has been identified as one of the areas where we can create a positive impact.



Climate

We have made helping to address 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). Our climate ambitions strive to make a positive impact on:



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

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

Cautionary statement on inclusion

The UN 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 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.

Serving our customers every day

We're dedicated to serving our customers. By being there throughout their lives, we can build long-term value, invest for growth and drive attractive returns for shareholders. Our focus is to continue building a great bank, powered by great people and delivering fantastic service to our 19 million customers.

Creating sustainable value





Serving our customers every day

Introduction

- 1.1 Group Chief Executive welcome
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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 disclosures, 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 or proposed frameworks and standards (or parts of them) when we believe that doing so may allow for a better understanding of our climate-related disclosures. 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 Group Chief Executive welcome



‘At NatWest Group, we continue to play our part in supporting the UK’s transition to a net-zero future, by helping our customers to make sustainable choices and take advantage of the growth opportunities arising from decarbonisation, as well as embedding sustainable practices in our business operations.’

Paul Thwaite, Group Chief Executive Officer

As a leading UK bank with 19 million customers, we are well placed to support them to make sustainable choices, while driving value and growth from the commercial opportunities of the transition to a net-zero economy.

This report outlines the approach we are taking towards our ambition to be net zero by 2050 across our financed emissions, assets under management, and operational value chain. It also provides an update on our initial Climate transition plan published in our 2022 Climate-related Disclosures Report, alongside the risks and dependencies involved in achieving our ambitions.

Supporting our customers’ transitions

In recognition that our climate ambitions are dependent on a variety of external factors – including government policy, technology developments and behavioural change – we continue to help our customers make sustainable choices, providing a combination of finance and practical tools. This was even more pertinent in 2023 during a year of elevated energy prices, persistent cost of living challenges and extreme weather, which included severe flooding in the UK and record high temperatures globally.

We are working to support our customers’ transition to net zero across a range of sectors and have now provided a cumulative total of £61.9 billion climate and sustainable funding and financing against our target to provide £100 billion between 1 July 2021 and the end of 2025.

For households, we believe energy efficiency is the best and most sustainable long-term defence against high energy prices. Through the launch of our new Home Energy Hub in 2023, we are enabling our customers to better understand their emissions and helping them reduce their carbon footprint. We also completed our Greener Homes Retrofit Pilot with the Sustainable Homes and Buildings Coalition, where we took customers through a fully funded end-to-end home retrofit. This pilot showed that retrofitting homes, at scale, could be both an achievable and affordable goal with the right conditions. It also provided valuable insights and helped us understand the challenges our customers face at various stages of their retrofit journey.

Collaboration has also remained central to our efforts. We launched a new strategic partnership with the World Wildlife Fund to help support a sustainable transition for the UK’s food and agricultural sectors.

We also partnered with the Supply Chain Sustainability School to provide a free retrofit learning platform for the

UK’s construction industry, helping to share knowledge and develop the skills needed to retrofit homes and buildings across the UK.

Opportunities for business

We believe that the drive towards net zero creates a potential, significant revenue opportunity for small to medium-sized enterprises (SMEs) and we are committed to helping our business customers take advantage of this.

We are taking steps to help businesses adopt more sustainable practices. As one of the leading UK banks for agriculture, we are working with food processors, manufacturers, and the wider supply chain to help drive more sustainable approaches to farming through incentive structures. This could help farmers address the short and medium-term costs of the transition to regenerative agriculture. We have also joined Bankers for Net Zero which brings together a cross-sector coalition to shape the future of emissions reporting for SMEs.

Similarly, we remain well placed to offer customers a broad range of sustainable finance and advisory services and products. Through our Climate and ESG Capital Markets and Advisory teams we continue to help customers with the design, structuring and execution of sustainability labelled debt.

Continuing to integrate climate into our decision-making

We continued to embed climate considerations into our decision-making processes across NatWest Group, including further alignment of our Climate transition plan with our financial plan. As part of this, by thinking systemically, we also focused on refining and prioritising our climate-related opportunities based on their relative commercial and decarbonisation potential.

Looking ahead

Tackling climate change is both a significant opportunity and challenge. While we have made some progress since setting out our climate strategy in 2020, we recognise the scale of the task ahead. To achieve our ambitions, we require timely and appropriate government policy and technological innovation to incentivise changes in consumer behaviour. We will continue to work with commercial and policy partners and develop effective interventions to play our part in supporting the UK’s transition to a net-zero future.

Paul Thwaite
Group Chief Executive Officer

1.2 Our climate strategy

We champion potential. Helping people, families and businesses to thrive.

Our climate ambition⁽¹⁾ 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

<p>1 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.</p>	<p>2 We plan to reduce carbon intensity of our Managed Assets by 50% by 2030, against a 2019 baseline, and to move 70% of Managed Assets to a net-zero trajectory⁽²⁾.</p>	<p>3 We plan to reduce emissions for our operational value chain by 50%, against a 2019 baseline⁽³⁾.</p>
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How we are helping to address the climate challenge

<p> Supporting customer transition to net zero</p>	<p>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.</p>	<p>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.</p>			
<p> Helping to end the most harmful activities</p>	<p>We plan to phase-out of coal⁽⁴⁾ 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.</p>				
<p> Powerful partnerships and collaborations</p>	<p>We plan to collaborate cross industry and create products and services to support customers in their transition to net zero.</p>				
<p> Getting our own house in order</p>	<p>Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.</p>	<p>We continue to integrate the financial and non-financial risks arising from climate change into our EWRMF⁽⁵⁾ in accordance with our multi-year climate risk maturity approach.</p>	<p>We have an ambition to reduce our direct own operations emissions by 50% by 2025, against a 2019 baseline⁽⁶⁾.</p>	<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>	<p>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).</p>

(1) NatWest Group's ability to achieve its strategy, including its climate ambitions and targets entails significant risks and will significantly depend on many factors and uncertainties beyond NatWest Group's control. The most important of these uncertainties and factors, which 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 417 to 422 of the NatWest Group plc 2023 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). For more information, refer to section 7 of this report (Cautionary statements).

(2) Our net zero by 2050 AUM ambition encompasses total AUM, including Managed Assets, Bespoke and Advisory, refer to page 76 for details. We consider Managed Assets (those assets we invest on our customers' behalf, which represented 84% of AUM as at 31 December 2023) to be in scope for our interim 2030 portfolio alignment target and weighted average carbon intensity (WACI) ambition. For details, refer to pages 38 to 39 of the [Net Zero Asset Managers Initiative's Initial Target Disclosure Report](#) (May 2022).

(3) Our operational value chain captures greenhouse gas emissions Scopes 1, 2 and 3 (Categories 1-14, excluding Categories 8, 10, 14). Scope 3 category 15 (financed emissions) is discussed in section 5.2 and 5.3.

(4) Data challenges, particularly the lack of granular customer information, create challenges in identifying customers with 'coal related infrastructure' (e.g. transportation and storage) and other customers with coal-related operations within NatWest Group's large and diversified customer portfolios.

(5) Enterprise-wide risk management framework.

(6) 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 therefore excludes upstream and downstream emissions from our value chain.

1.2 Our climate strategy continued

Risks related to our climate ambitions

We have an ambition to be net zero across our financed emissions, assets under management and our operational value chain by 2050, aligned with the UK's legal commitment to be net zero by 2050. We continue to engage with and support our customers' transition to a net-zero economy and monitor further developments, including progress on supplier and fund decarbonisation. Refer to section 2 for our Climate transition plan which also includes details of our external dependencies. Our climate ambitions are unlikely to be achieved without timely and appropriate government policy and technology developments, as well as supplier, customer and societal response.

We expect to achieve our Scope 1 and 2 own operations ambitions and targets. With regards to our 2030 Scope 3 financed emissions ambitions, while UK government policies are expected to provide incentives for customer transition and technology development, delays to a range of net-zero related UK government policies indicate the pace of implementation is slower than required for the net-zero transition as outlined in the UK Climate Change Committee's (UK CCC) sixth carbon budget, issued in 2020. The UK CCC ['Progress in reducing emissions' 2023 report to Parliament](#), issued in June 2023 (UK CCC June 2023 Progress report) states that the rate of emissions reduction will need to significantly increase for the UK to meet its 2030 commitments, and continued delays in policy development and implementation mean achievement is increasingly challenging.

Accordingly, we consider achievement of the following ambitions increasingly challenging: (i) 50% of our mortgage portfolio of EPC rating of C or above by 2030 and (ii) halving the climate impact of our financing activity by 2030, against a 2019 baseline. We will continue to review our climate ambitions and targets as the external environment develops.



'While the policy framework has continued to develop over the past year, this is not happening at the required pace for future targets. The Net Zero target was legislated in 2019, but there remains a lack of urgency over its delivery. The net-zero transition is scheduled to take around three decades, but to do so requires a sustained high-intensity of action. This is required all the more, due to the slow start to policy development so far. Pace should be prioritised over perfection.'

UK CCC June 2023 Progress Report

1.3 Climate progress highlights

In 2023, we continued to implement and refine our Climate transition plan. We focused on delivery of our 2030 decarbonisation ambitions by supporting customer transition to net zero, helping to end the most harmful activities, building powerful partnerships and collaborations, and getting our own house in order.

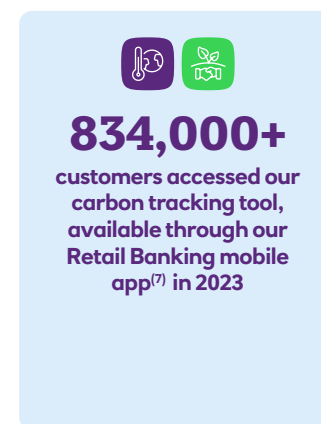
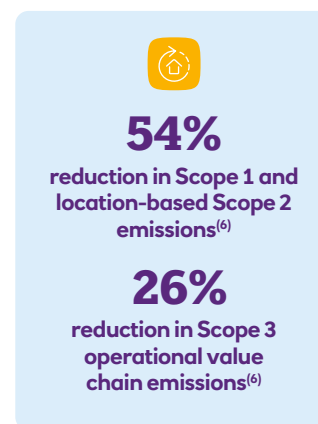
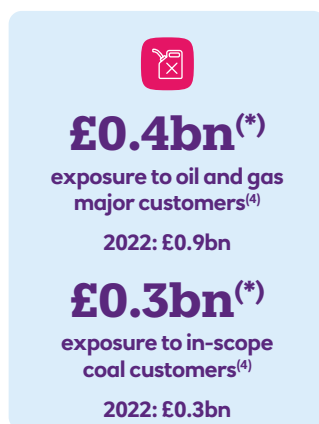
These initiatives provided us with a greater understanding of the dependencies NatWest Group and our customers have on timely and appropriate government policy and technological developments that will support customer transition.

 Supporting customer transition to net zero

 Helping to end the most harmful activities

 Powerful partnerships and collaborations

 Getting our own house in order



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 of the scope, respective responsibilities, work performed, limitations and conclusion.

- (1) Between 1 July 2021 and the end of 2025.
- (2) Based on 2022 emissions, reflecting sectors included in our Climate transition plan. Refer to section 2.3 for further details.
- (3) Loans and investments relate to on-balance sheet gross lending and investment exposure, accounted at amortised cost (including finance leases) and FVOCI.
- (4) Our Credible Transition Plan (CTP) assessment undertaken in 2021, which is monitored annually, employed a top-down approach to identify existing coal-related customers, utilising the expertise of our frontline teams. However, we recognise that this was a point-in-time assessment. During 2024, we are working to review our ESE policies. We have also set up a working group within the Commercial & Institutional business segment to support development of guiding principles for assessment of thermal and lignite coal embedded

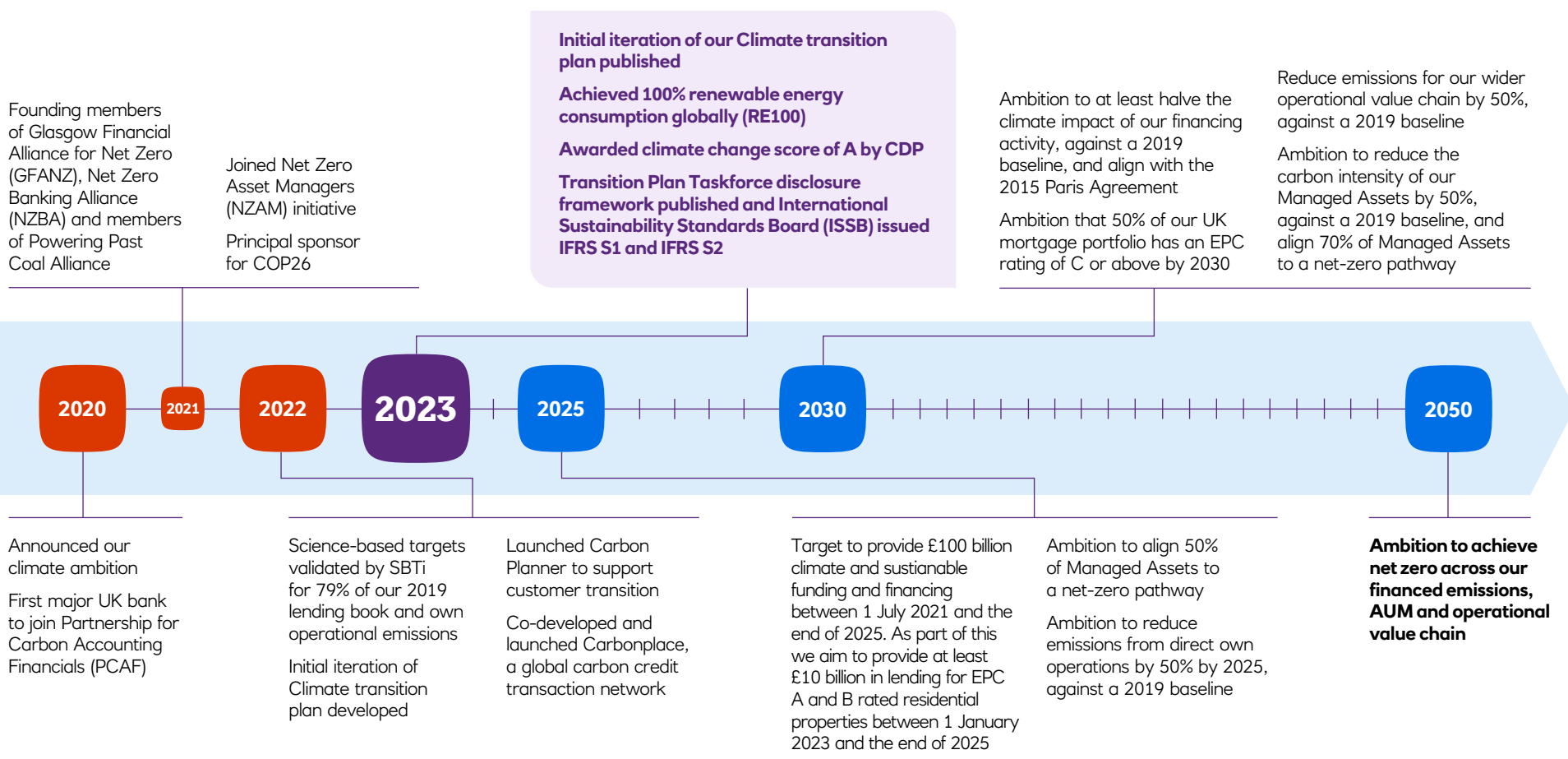
within activities like transportation, storage, supply chain and value add services, additionally ensuring due consideration is given to external factors such as energy security.

- (5) We consider Managed Assets (those assets we invest on our customers' behalf, which represented 84% of AUM as at 31 December 2023) to be in scope for our interim 2030 portfolio alignment target and our weighted average carbon intensity (WACI) ambition.
- (6) Against a 2019 baseline. Scope 3 emissions relating to our operational value chain only. See sections 2.7 and 5.1 for further details. Scope 3 Category 15 financed emission is covered in section 5.2 and 5.3 of this report.
- (7) Retail Banking RBS, NatWest and Ulster Bank Northern Ireland mobile apps.
- (*) Within scope of EY assurance.

1.4 Our transition to net zero

NatWest Group’s ambition to be net zero by 2050 across financed emissions, AUM and our operational value chain is aligned with the 2015 Paris Agreement’s overarching goal to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

As our Climate transition plan illustrates, we aim to help address the climate challenge, but we cannot transform the real economy on our own. We are dependent on society’s readiness to accept and support necessary changes for large-scale decarbonisation, reinforced by timely and appropriate government policy and continuous technological development.



1.5 TCFD: Climate-related disclosures overview

NatWest Group committed to support the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2017 and has published climate-related disclosures consistent with the TCFD recommendations since February 2022. The latest assessment of consistency with the TCFD recommendations is summarised in the following tables. Details regarding consistency with the FCA’s requirements for enhanced climate-related disclosures by asset managers are outlined in section 6.

NatWest Group confirms that it has:

- made climate-related financial disclosures for the year ended December 31, 2023 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) *Final Report - 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) *Technical Supplement - The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (June 2017); (iv) *Guidance on Risk Management Integration and Disclosure* (October 2020); and (v) *TCFD Guidance on Metrics, Targets and Transition Plans* (October 2021 version); and summarised in the tables on pages 8-11;
- we have set out these disclosures in this report and in the NatWest Group 2023 Annual Report and Accounts, both published on 16 February 2024 (and available on natwestgroup.com); and
- we have 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.

	2023 progress	Looking ahead	Section
Governance	Governance		
	NatWest Group’s governance around climate-related risks and opportunities		
Strategy	<p>The Board’s oversight of climate-related risks and opportunities</p> <ul style="list-style-type: none"> – The NatWest Group Board received climate-related updates throughout 2023. A Board business insights report, which included a snapshot of NatWest Group’s progress against its climate ambitions, was received in advance of every Board meeting. – A performance assessment of climate targets linked to the Executive Director scorecard was approved by the Board. 	<ul style="list-style-type: none"> – The Board and Executive Committees will maintain oversight of climate progress, and ongoing climate-related risks and opportunities impacting NatWest Group, including the Climate transition plan and associated growth opportunities. 	4.1, 4.2, 6.5
Risk Management	<p>Management’s role in assessing and managing climate-related risks and opportunities</p> <ul style="list-style-type: none"> – Under our integrated governance structure, business areas are expected to ensure that climate considerations are built into decision-making and accountable executives are empowered to make decisions within their areas of accountability and responsibility. – Our Climate Change Executive Steering Group (CCESG) continued to focus on overseeing strategic progress against NatWest Group’s climate ambitions as well as supporting executive recommendations to the Board on climate. 	<ul style="list-style-type: none"> – Continue to build knowledge and further embed climate in decision-making within franchises and functions to support the oversight and management of climate-related risks and opportunities within NatWest Group’s overall business strategy and risk appetite. 	4.3, 6.5
Metrics and Targets			

1.5 TCFD: Climate-related disclosures overview continued

	2023 progress	Looking ahead	Section	
<p>Governance</p> <p>Strategy</p> <p>Risk Management</p> <p>Metrics and Targets</p>	<p>Strategy</p> <p>The actual and potential impacts of climate-related risks and opportunities on NatWest Group’s businesses, strategy and financial planning</p>			
	<p>Climate-related risks and opportunities identified over the short, medium and long term</p>	<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 support our customers in their transition to net zero. We continued to update our assessment of climate-related risks and opportunities through the development of our Climate transition plan. For information on risks to our climate ambitions, refer to page 5. We continued to develop Climate Decisioning Framework (CDF) tools within Commercial & Institutional, to further embed climate within customer journeys. 	<ul style="list-style-type: none"> Continue to integrate climate-related decision-making in business activities. Develop initial scenario analysis capabilities within AUM to assess climate-related risks and opportunities over the short, medium and long-term. We aim to roll-out CDF tools on a test-and-learn basis from early 2024. 	1.2, 2.1, 2.4, 3.2, 6.3
	<p>The impact of climate-related risks and opportunities on our businesses, strategy and financial planning</p>	<ul style="list-style-type: none"> We refined our Climate transition plan, focusing on the delivery of our 2030 decarbonisation ambitions while furthering our understanding of the need for timely and appropriate government policies to create demand for financial solutions and products to support customer transition. This has informed our work on government and policy engagement, the creation of opportunities to support our customers as well as our approach to collaborations. We made progress in harnessing climate-related opportunities aligned to our target to provide £100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025, including the ambition to provide £10 billion of lending to A and B rated residential properties as part of this. We continued to align our financial planning process with the climate transition planning process. This included adding climate policy and technology-related transition assumptions into the base case macroeconomic scenario used for financial planning and the assessment of Expected Credit Loss (ECL). We continued to integrate climate-related risks and opportunities into our AUM investment strategy and assess potential impacts from the transition towards net zero. 	<ul style="list-style-type: none"> We will continue to enhance the alignment of our financial planning and transition planning processes and embedding of climate in decision-making. We will further enhance planning, measurement and tracking capability to support the ongoing development of our Climate transition plan. 	2.1 – 2.7 3.1 – 3.3 5.1 – 5.3 6.3
	<p>The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	<ul style="list-style-type: none"> We conducted a range of scenario analysis exercises to test the resilience of our strategy to the impacts of climate change. Our 2023 scenario analysis programme assessed risks and opportunities from short (<5 year) and medium term (5 to 10 year) scenarios including risk management and capital adequacy use-cases. We continued to enhance our suite of climate risk models, developed additional in-house modelling capabilities and enhanced sector and counterparty level modelling, which further integrated climate insights into existing processes. We continued to integrate climate into capital adequacy (ICAAP) and ECL frameworks to ensure NatWest Group is adequately capitalised, by measuring potential losses and testing resilience against expected and unexpected losses. Alongside credit risk, we also used climate scenario analysis to test our resilience to other principal risks. One of the key lessons from our scenario analysis work to date 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 continues to be resilient to these risks, within the context of the scenarios tested. 	<ul style="list-style-type: none"> We aim to continue to deepen our climate risk modelling, build additional internal capabilities, and further embed climate scenario analysis into decisioning. To do this, we are progressing in several areas, including exploring enhanced UK-specific climate risk scenarios grounded in potential changes in UK, and global, climate policy. We also intend to develop and test our in-house climate risk model for residential and commercial properties including an event-based physical risk scenario exercise. We will continue to respond to regulatory expectations and prepare for future climate scenario analysis exercises. We aim to build analytical capabilities to assess the risks of different climate-related scenarios on assets under management. 	2.5, 3.2, 6.3

(1) Our climate transition planning uses different time frames from 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. For details of climate-related time horizons, refer to section 2.1.

1.5 TCFD: Climate-related disclosures overview continued

	2023 progress	Looking ahead	Section	
<p>Governance</p> <p>Strategy</p> <p>Risk Management</p> <p>Metrics and Targets</p>	<p>Risk Management</p>			
	<p>How NatWest Group identifies, assesses and manages climate-related risks</p>			
	<p>Our processes for identifying and assessing climate-related risks</p>	<ul style="list-style-type: none"> We reviewed our prior assessment of the relative significance of climate-related risk 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. We identify and assesses climate-related risks in three ways: <ul style="list-style-type: none"> scenario analysis to understand potential impacts portfolio level assessment: our heightened climate-related risk sector assessment seeks to identify sectors that are likely to increase credit risk to NatWest Group because of climate-related factors transaction level assessment: we completed a review and recalibration exercise to enhance the quality of insight generated by our climate risk scorecards. 	<ul style="list-style-type: none"> We intend to further develop our modelling capabilities and expanding incorporation of transition and physical risk drivers into short-term scenarios. We aim to continue the process of embedding nature-related risks into risk management processes. 	3.2, 3.3
	<p>Our processes for managing climate-related risks</p>	<ul style="list-style-type: none"> We continued to enhance pricing frameworks to embed climate considerations in the wholesale portfolio. These enhancements ensure we continue to support businesses to help address the climate challenge and reshape the Commercial & Institutional business segment towards more sustainable, transition-aligned transactions. Alongside climate-related enhancements made over time to NatWest Group's Environmental, Social and Ethical (ESE) risk acceptance criteria, transaction acceptance standards and sector strategy, in 2023 we also began development of enhanced climate risk scorecards (CRS) within CDF. This involved the expansion of the scorecard methodology to capture quantitative considerations. We applied new business and portfolio lending limits to our residential mortgage portfolio based on climate characteristics. We enhanced our operating limits within Commercial & Institutional to help us track exposure to heightened climate-related risk sectors and enable early identification of trends. 	<ul style="list-style-type: none"> As part of the roll out of CDF, we aim to introduce our enhanced CRS on a test-and-learn basis, which will support better customer engagement and allows us to provide targeted support to customers, while also enhancing our own internal climate assessment to measure progress towards our climate ambitions. Ongoing enhancements to NatWest Group's processes for managing climate-related risk will continue to evolve and improve as we mature our climate risk management capabilities. 	3.2, 3.3, 6.3, 6.4
<p>How our processes for identifying, assessing and managing climate-related risks are integrated into overall risk management</p>	<ul style="list-style-type: none"> Our climate risk appetite was reported via governance forums and reviewed in line with our Risk Appetite Framework with quantitative risk appetite measures focused on excess exposure to heightened climate-related risk sectors and exposures that deviate from NatWest Group's transition trajectory. We concluded our 2023 internal climate scenario analysis exercise, demonstrating enhanced scenario analysis capabilities. We made continued updates to our transaction acceptance standards⁽¹⁾. We continued to integrate climate-related risks into our AUM investment strategy. Net zero assessments are integrated into fund due diligence and we use voting and engagement to improve the availability and quality of climate-related data. 	<ul style="list-style-type: none"> We intend to continue to deepen our climate risk modelling, build additional internal capabilities and further embed climate scenario analysis into decisioning. Recognising the link between climate risk and nature loss, we are adding nature risk to our climate risk considerations within the risk directory, for implementation from 2024. For AUM we aim to further incorporate ESG metrics into our portfolio management approach. 	3.1, 3.2, 3.3, 6.3, 6.4, 6.5, 6.6	

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

1.5 TCFD: Climate-related disclosures overview continued

	2023 progress	Looking ahead	Section
<p>Governance</p> <p>Strategy</p> <p>Risk Management</p> <p>Metrics and Targets</p>	<p>Metrics and Targets</p> <p>The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</p>		
	<p>The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process</p> <ul style="list-style-type: none"> We use a range of metrics to measure opportunities and risks, including tracking progress against our climate and sustainable funding and financing target, exposure to heightened climate-related risk sectors, energy efficiency and flood risk for our residential mortgage portfolio, as well as estimates of emissions for loans and investments, AUM, underwriting activities and our operational value chain. Refer to the Directors' Remuneration Report in the 2023 NatWest Group Plc Annual Report and Accounts for further details of integration of climate considerations into remuneration. 	<ul style="list-style-type: none"> We will continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities. We will also continue to monitor evolving carbon measurement standards and enhance capabilities. 	2.3, 2.4, 2.7, 3.2, 3.3, 5.1, 5.2, 5.3, 6.4
	<p>Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks</p> <ul style="list-style-type: none"> We continued to enhance capabilities to measure estimates of emissions for our loans and investments, AUM, underwriting activities and our operational value chain. We incorporated corporate fixed income into our weighted average carbon intensity (WACI) methodology and reported our estimated managed emissions for AUM for the first time. Emissions from direct own operations reduced by 47%, against a 2019 baseline and we increased our renewable electricity consumption to 100%. 	<ul style="list-style-type: none"> We intend to continue working on enhancements to the availability and quality of data to support future calculations of emissions, including absolute financed emissions and emissions intensities. 	2.4, 2.7, 5.2, 5.3, 6.6
	<p>The targets used to manage climate-related risks and opportunities and performance against targets</p> <ul style="list-style-type: none"> NatWest Group has an ambition to achieve net zero by 2050 across financed emissions, AUM and our own operational value chain. In line with our ambition to at least halve the climate impact of our financing activity by 2030, and align with the 2015 Paris Agreement, we published our targets validated by the Science Based Targets initiative (SBTi) as science-based. Our SBTi targets cover 79% of our lending book as at 31 December 2019 and 57% of debt securities and equity shares, excluding sovereign debt securities Progress towards our climate ambitions and targets: <ul style="list-style-type: none"> £61.9 billion^(*) cumulative contribution towards £100 billion climate and sustainable funding and financing target, including £3.9 billion of lending to A and B rated residential properties in 2023, against our aim to provide £10 billion between 1 January 2023 and the end of 2025. 44.1%^(*) of our UK residential mortgages portfolio that had Energy Performance Certificate (EPC) data available was rated EPC A to C. As at 31 December 2023, £140.8 billion, 67.6%, of the total residential mortgages portfolio had EPC data available. Climate progress is an integral part of the annual bonus scorecard introduced under our Executive Directive remuneration policy. In 2023, 10% of potential annual bonus was based on performance against specific climate ambitions. For AUM, portfolio alignment and WACI are used to assess how funds are managing short- and long-term climate-related risks and opportunities. 	<ul style="list-style-type: none"> We will continue to monitor performance against our climate-related targets and ambitions as the external environment develops, including monitoring risks associated with our ability to achieve our ambitions. 	1.2, 1.3, 1.4, 2.1, 2.3, 2.4, 2.7, 5.1, 5.2, 5.3, 6.3

Refer to our 2023 Sustainability Basis of Reporting for further detail on methodologies and limitations and section 7 for cautionary statements.

(*) Within the scope of EY assurance. Refer to page 6.

1.6 Spotlight on developing frameworks

In addition to the TCFD Recommendations and Recommended Disclosures, NatWest Group’s climate-related disclosures, which incorporate our Climate transition plan, have been informed by a range of established and developing reporting frameworks, including, but not limited to:

- the International Sustainability Standard Board’s (ISSB) climate-related disclosure standards (IFRS S2)
- the Transition Plan Taskforce (TPT) disclosure framework (2023), which uses common components and structure to the 2022 GFANZ transition plan guidance.

We will continue to monitor developing frameworks and build processes and capabilities to support future reporting. The table below provides references to relevant content within this report against the key frameworks mentioned above.

For further details of our approach to managing regulatory compliance risk refer to section 3.2 and the Risk factors included on pages 417 to 441 of the 2023 NatWest Group plc Annual Report and Accounts.

Framework	Disclosure element	Section(s)
TPT (aligned with GFANZ guidance)	Foundations: An entity’s strategic ambition, business model and value chain, key assumptions and external factors.	1, 2, 3, 6
	Implementation strategy: An entity’s business operations, products and services, policies and conditions and financial planning.	2
	Engagement strategy: An entity’s engagement with value chain, industry, government, public sector and civil society.	2.4
	Metrics and targets: An entity’s governance, business and operational metrics and targets, financial metrics and targets, GHG metrics and targets and carbon credits.	2, 3, 5, 6
	Governance: An entity’s board oversight and reporting, roles, responsibility and accountability, culture, incentives and remuneration and skills, competencies and training.	5, 6
ISSB	Governance: an entity’s processes, controls and procedures to monitor, manage and oversee climate-related risks and opportunities.	1, 2, 3, 5
	Strategy: an entity’s strategy for managing climate-related risks and opportunities.	1, 2, 3, 6
	Risk management: an entity’s processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity’s overall risk management process.	3, 6
	Metrics and targets: an entity’s performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.	2, 3, 5, 6



“The TCFD has been a trailblazer in raising the practice and quality of climate-related disclosures, providing much-needed information to investors about climate-related risks and opportunities.

The ISSB has built from and consolidated the market-leading investor-focused sustainability-reporting initiatives to deliver the ISSB Standards, with the TCFD recommendations at the heart of this. As such, the ISSB welcomes the Financial Stability Board’s (FSB) request to transfer the TCFD’s monitoring responsibilities to the ISSB from 2024 and the opportunity to build on TCFD’s legacy. This announcement provides yet further clarification of the so-called ‘alphabet soup’ of ESG initiatives for companies and investors.”

Emmanuel Faber – Chair of the ISSB

IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024



Serving our customers every day

Strategy and Climate transition plan

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

- 2.1 Our strategic approach to climate change
- 2.2 Developing our approach to nature
- 2.3 Climate transition plan: scope and approach
- 2.4 Products, services and business model
- 2.5 Integration of our Climate transition and our financial plan
- 2.6 Sensitivity analysis including dependence on government policies
- 2.7 Operational value chain

2.1 Our strategic approach to climate change

As a primarily UK-focused bank, we have considered the majority of climate-related risks and opportunities influencing our strategy through a UK lens. Exceptions are included as part of this report, for example AUM, which are invested globally (refer to section 6).

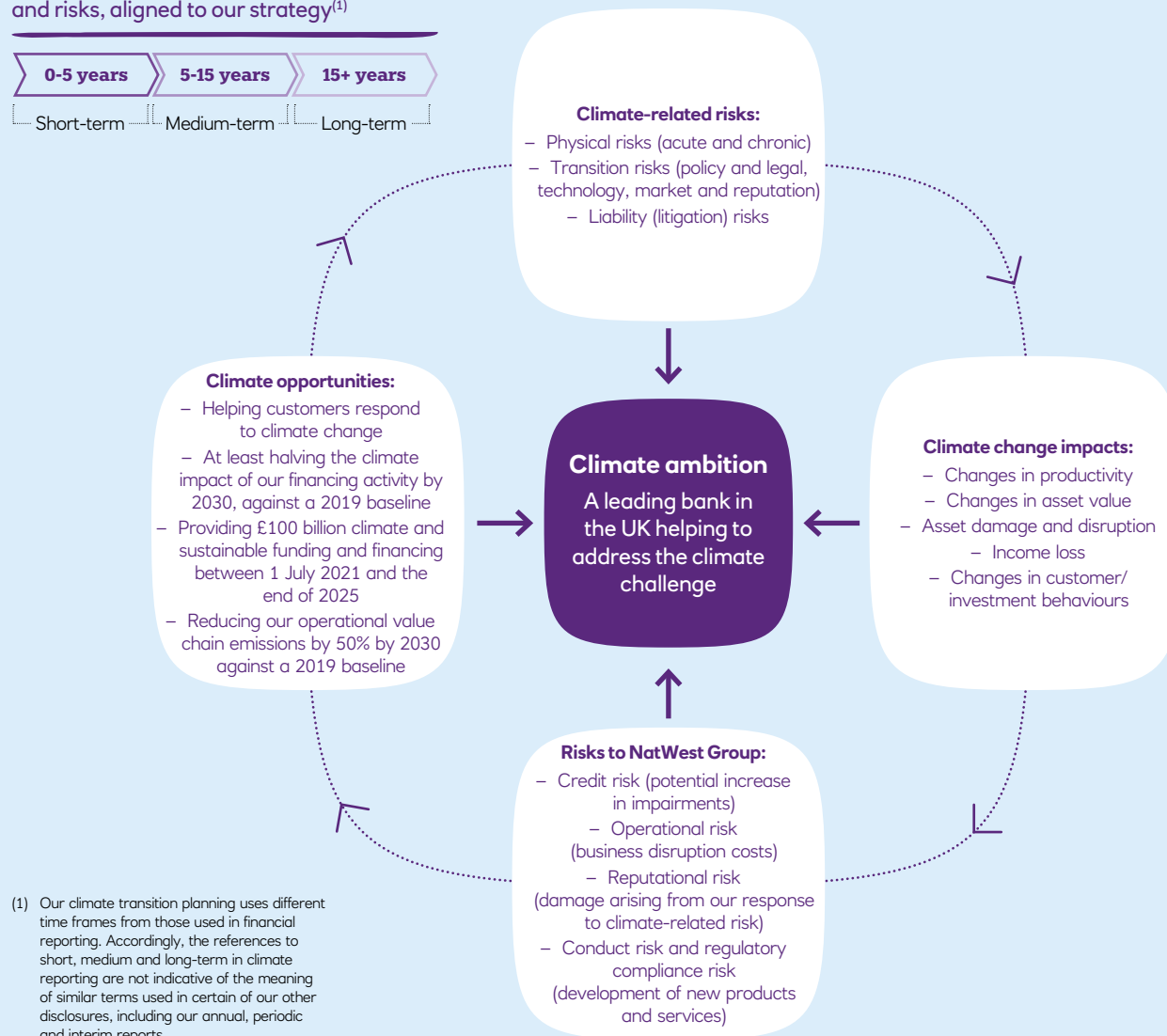
The **physical and transition** risks associated with climate change are transmitted through the economy to NatWest Group. This transmission, which also includes liability risks, happens in a number of ways, including but not limited to, impacts on NatWest Group’s key risks. Refer to sections 3.2 and 6.4 for further details of identified and potential climate-related risks.

Climate-related 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. See pages 15 and 16 for further details.

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. Our Climate transition plan encompasses both short-term and immediate medium-term horizons.

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

Time horizons used to classify climate-related opportunities and risks, aligned to our strategy⁽¹⁾



(1) Our climate transition planning uses different time frames from 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.

2.1 Our strategic approach to climate change continued

Spotlight on our systems thinking approach

We recognise that the decarbonisation of certain sectors can have a large impact on decarbonisation within other sectors, the most prominent being energy. Also, opportunities within one sector may be dependent on other sectors, for example, within property-related sectors there is a dependency on low-carbon building materials, efficient building practices and adequate supply chains to support the decarbonisation of residential mortgages and commercial real estate. 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 and consumer preferences and behaviours.

Cross-cutting, interconnected systems that impact on the UK's carbon footprint and our customers' day-to-day lives

PROPERTY: represents the full lifecycle of a property from its design, construction, operation to decommissioning

FOOD: represents primary activities in agriculture and fishing, the processing, packaging and distribution of food as well as food retailers and markets, and the management of food waste

MOBILITY: describes the movement of people and things, which allows society to access goods and services through motorised and non-motorised means, enabled by infrastructure and technology

ENERGY: provides the physical means to transform natural resources into goods and services that deliver benefits to society, which may in turn generate further emissions

MATERIALS: underpins all economic activity and presents complex challenges in securing critical mineral supply chains, decarbonising production processes, and reducing waste streams

All five systems currently identified by NatWest Group are underpinned by and depend on finance, which directs the flow of labour, energy and materials, and is therefore critical in selecting, prioritising and facilitating real economic activity

Sectors are the structure through which we realise commercial opportunities and support customer transition to net zero.
Refer to section 2.4 for further detail.

Systems thinking approach in practice

Our systems thinking approach aims to provide additional perspectives on net zero that may otherwise be obscured at the sector level. By analysing climate transition through the lenses of energy, materials, mobility, property, and food it becomes apparent that net zero cannot be achieved through decarbonisation alone and that the structure of economies will also be required to change. As every sector of the economy has a materials footprint the illustration below is used to outline some of these interdependencies and overlaps across sectors, noting the diversity in character and application of materials which present a range of different challenges.

- 1 Transition materials** (e.g. cobalt, copper, graphite, lithium, neodymium, nickel) are experiencing accelerated demand growth⁽¹⁾ as the economy migrates from fuels to capital. Hydrocarbon minerals that are extracted, refined and burned will, over time, be replaced with inorganic minerals that are extracted, processed, and retained in use. Substituting chemical energy stocks (e.g. fossil fuels) with physical energy flows (e.g. sunlight, wind, geothermal) will require energy storage solutions, to reconcile variable supply with predictable demand. **We believe this transformation could provide new commercial opportunities throughout the materials' life-cycle, including in the end-of-life recovery, reuse, reprocessing and recycling phases.**
- 2 Foundational materials** (e.g. iron and steel, cement and concrete, glass, petrochemicals) will be required for infrastructure upgrades and new construction projects to support the future net-zero economy. However, these materials are generally carbon-intensive to produce and associated emissions are considered hard to abate. **The net-zero imperative implies increasing demand for major investments in emergent technologies to decarbonise the production of these pillars of modernity⁽²⁾.**
- 3 Materials embedded in fast-moving consumer products** which can result in highly dispersed, low-value waste streams (e.g. single-use plastics, textiles and consumer electronics) could adopt circular principles. **Business model innovation and collaboration across many sectors and systems could require funding and novel financial products and services.**

Changes across the system may be required to support large-scale decarbonisation. Understanding these changes from a systems perspective enables us to appreciate the challenges faced by our customers and provides insight into shaping climate-related opportunities.

(1) International Energy Agency (IEA): The Role of Critical World Energy Outlook Special Report Minerals in Clean Energy Transitions.
(2) Mission Possible: Reaching net-zero carbon emissions from harder-to-abate sectors.

2.1 Our strategic approach to climate change continued

Climate-related opportunities

As we implement our Climate transition plan, we will continue to refine and prioritise our climate-related opportunities based on their relative commercial and decarbonisation potential and support our customers and the wider economy transition to net zero. Climate-related opportunities are identified and prioritised on an ongoing basis at a local level and through our systems thinking approach (refer to page 15) at our Climate Opportunities Group (COG), which met monthly since April 2023. Climate-related opportunities and their potential financial impacts are also assessed annually as part of the continued integration of

our Climate transition plan and financial plan, refer to section 2.5. The opportunities included below have been identified as having the potential to enable NatWest Group to align its balance sheet, assets under management and operational value chain with its 2030 and 2050 climate ambitions. The potential timing and impact of these opportunities will differ by sector, reflecting the dependence on government policy, technology and customer behaviour change. Further detail of how we are exploring and developing these potential opportunities is included in section 2 and 6 of this report.

Ambition: Net zero by 2050 across our financed emissions, assets under management and operational value chain

Opportunity: Supporting our customers' and the UK economy's transition to net zero

Supporting our customers' sustainability transitions

Products and services



Funding and financing to support the transition to net zero across sectors and emerging technologies



Development of new and enhanced green and transition products and services



Providing supply chain finance to large companies (e.g. McCain Foods partnership)



Alignment of our Managed Assets to net zero

Building capability



Development of integrated platforms: advisory/tools, connect to services, and finance (e.g. Home Energy Hub and Carbon Planner)



Building capability and confidence (e.g. Supply Chain Sustainability School and Carbon Planner)

Supporting our operations to decarbonise



Reduce operational value chain emissions



Decrease the impact of our buildings



Increase engagement with colleagues and suppliers

Underpinned by our approach to customer advocacy, powerful partnerships and collaborations

Potential financial impacts

- Increased 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 transition.
- Increased proportion of balance sheet related to energy efficient homes and buildings.
- Additional expenditure to develop new products and services, including investment in developing tools and participation in partnerships.

- Reduced exposure and geographical footprint related to activities identified as harmful within our ESE risk acceptance criteria.
- Net interest income through lending activities.
- Additional fee income through advisory and underwriting activities.

Potential financial impacts

- Increased expenditure to support reduction in carbon footprint in our own operations.
- Reduced expenditure related to energy management and travel.

For details of our identified climate-related risks and potential risks, refer to section 3 of this report.

2.1 Our strategic approach to climate change continued

Key levers to support the transition to net zero

As part of supporting our customers’ transition to net zero, we have a target to provide £100 billion climate and sustainable financing and funding between July 2021 and the end of 2025. NatWest Group uses its CSFF Inclusion (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.

Since the £100 billion target came into effect in July 2021 NatWest Group has provided £61.9 billion^(*) of climate and sustainable funding and financing (£29.3 billion in 2023⁽¹⁾⁽²⁾).

This consisted of £52.6 billion (£25.4 billion in 2023) in Commercial & Institutional (including NatWest Markets £30.3 billion (£14.8 billion in 2023)), and RBS International £4.6 billion (£2.3 billion in 2023)), £8.8 billion in Retail Banking (£3.7 billion in 2023) and £0.5 billion in Private Banking (£0.2 billion in 2023).

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

	Full year ended 31 December 2023 (£bn)	Full year ended 31 December 2022 (£bn)	Cumulative progress towards the £100bn target (£bn) (since 1 July 2021)
Specific purpose wholesale lending ⁽³⁾	5.1	3.0	9.3
Residential mortgages with EPC A or B ⁽⁴⁾	3.9	4.2	9.3
Sustainability linked loans ^(3,6)	5.4	5.3	12.8
Green and sustainability bond public issuances and private placements ⁽⁵⁾	12.4	10.0	25.1
Sustainability linked bonds and private placements ⁽⁶⁾	0.1	0.8	1.1
Other wholesale general purpose lending ⁽³⁾ or wider financing within the CSFFI criteria ⁽⁷⁾	2.4	1.2	4.3
Total	29.3^(*)	24.5	61.9^(*)

(1) For the year ended 31 December 2023, the NatWest Group CSFFI criteria published in December 2022 has been used to determine the assets, activities and companies that are eligible to be counted. For the year ended 31 December 2022, our CSFFI criteria published in October 2021 was applied. For the year ended 31 December 2021, the CSFFI criteria published in February 2021 was applied. Lending to personal customers for properties with EPC A and B ratings was 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. Full details of the latest CSFFI criteria can be found at natwestgroup.com

(2) The £61.9 billion cumulative climate and sustainable funding and financing total consists of £34.7 billion in lending and £27.2 billion in underwriting transactions.

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

(4) Refer to section 2.4 for data availability and limitations related to EPC data.

(5) Underwriting of specific use of proceeds debt capital market issuance for project expenditures, sovereign and EU green bond auctions, 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, and the allocated auction bond volumes. During the year ended

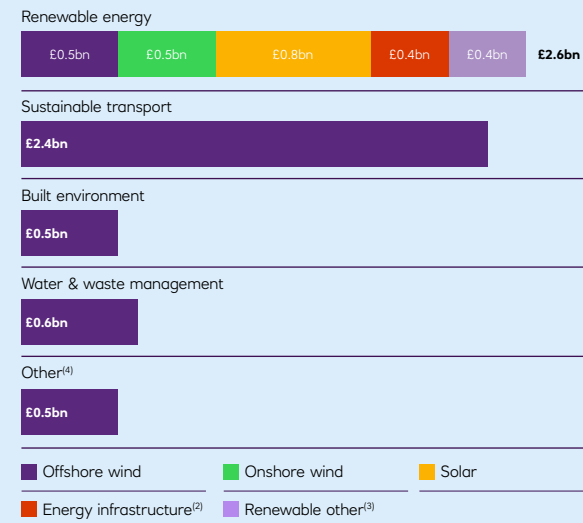
31 December 2023, NatWest Group lead managed or placed 78 green bonds (including auctions), and private placements totalling a notional amount of £83.0 billion (52 deals, £41.6 billion during full year 2022). The CSFFI criteria allows for the inclusion of eligible sustainability bonds, which began to be included from 1 January 2022 (15 deals, climate and sustainable funding and financing contribution £2.3 billion in the year ended 31 December 2023) and sovereign and EU green bond auctions, which are included from 2023.

(6) Sustainability linked loans, bonds and private placements aligned 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.

(7) 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): 90% or more of revenues are in the categories or sectors outlined in the CSFFI criteria, or for real estate and utilities companies 90% of their assets are in categories or sectors outlined by the CSFFI criteria, or for fund clients 90% of assets under management are invested in activities that meet the CSFFI criteria. In the year ended 31 December 2023, the £2.4 billion included above comprised loans of £1.5 billion and bonds and private placements of £0.9 billion.

(*) Within the scope of EY assurance. Refer to page 6.

Wholesale loans by CSFFI criteria category in 2023⁽¹⁾



Geographical split of climate and sustainable funding and financing in 2023⁽⁵⁾



(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 other – primarily relates to lending to funds that invest in multiple types of renewable energy.

(4) Other consists mainly of energy storage – £216 million

(5) Since 1 July 2021, UK £33.3 billion, Western Europe £23.9 billion and Other £4.7 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.

2.2 Developing our approach to nature

According to research from the World Economic Forum, more than half the world's total GDP is moderately or highly dependent on ecosystem services and, as a result, exposed to risks from nature loss. The link between climate and rising nature-related risks resulting from the depletion of natural ecosystems and resources is undeniable.

Managing impact on nature and biodiversity

As we progress our Climate transition plan, we aim to work towards enhancing processes and capabilities to include assessments of nature-related risks and opportunities within governance, risk management and stakeholder engagement practices.

Since 2011 the implementation of NatWest Group's ESE risk acceptance criteria has helped to manage negative impacts NatWest Group funding and financing and our customers may have on the environment. These criteria require enhanced due diligence for certain lending and underwriting customer relationships, transactions, activities and projects. This is especially relevant to the following ESE criteria:

- forestry, fisheries and agribusiness
- mining and metals
- oil and gas
- power generation.

As part of our asset management fund due diligence process, funds have been required to disclose their approach to biodiversity since 2020. In 2023, 33% of voting and engagement activity⁽¹⁾ for our custom-built funds focused on environmental themes. Refer to page 79 for details.

Progress in 2023

- The NatWest Group Board's annual climate and environmental training session focused on nature and biodiversity. To see how we have begun to consider nature in Governance, refer to page 62.
- We expanded the scope of climate risk within our risk management framework to include nature-related risks. Changes come into effect from 1 January 2024.

Recognising the need for a proportionate and progressive business response, a multi-year implementation approach is envisaged, similar to that undertaken for climate risk. For further details, refer to page 47.

- Following the publication of the Task Force for Nature-related Disclosures (TNFD) recommendations in 2023, we recognise the need to develop the capabilities and tools to identify, locate, evaluate and assess, monitor and mitigate our impacts and dependencies on nature. We aim to build on insights gained from previous analysis of nature-related data to inform a TNFD LEAP assessment in 2024. For details refer to our [2023 ESG Disclosures Report](#), page 35.
- NatWest Markets NV, our Netherlands-based subsidiary, implemented environmental risk scorecards for three priority sectors. For further details refer to our [2023 ESG Disclosures Report](#), page 35.
- We started to expand key roles to develop our capability and understanding, including appointment of a Head of Nature within the Climate Centre of Excellence. Within our Risk function we expanded a key role to become the Head of Climate and Nature Risk.
- We enhanced our due diligence processes for [soft commodity](#)⁽²⁾ producers operating in tropical regions who have not obtained sustainable certification for their direct activities and supply chain by 31 December 2024. This targets deforestation-related commodities, such as palm oil, at the point of production or import.

Understanding the impact of and dependencies on nature

Our approach to helping protect, restore and regenerate nature will continue to evolve as the regulatory landscape develops. As with our climate ambitions, our approach to nature will be dependent on timely, appropriate government policy, technology as well as the willingness of our customers and society to respond.



Finance innovation in support of biodiversity

Keen to be the first energy company to issue a blue bond, Ørsted, the Danish-headquartered renewable energy company, turned to NatWest Group in 2023 to support the transaction as sole arranger. Blue bonds are designed to raise capital for projects that support the blue economy, focusing on the sustainable use of ocean resources to drive renewable energy growth while preserving marine ecosystems.

On World Ocean Day (8 June 2023), Ørsted issued its inaugural five-year, €100 million privately placed Blue Bond, with proceeds going towards financing initiatives that target offshore biodiversity and sustainable shipping.

Ørsted will undertake various measures to mitigate, conserve, restore, and pilot new techniques, including artificial habitat restoration, with the goal of ensuring a net-positive impact on ocean biodiversity from all new renewable energy projects commissioned from 2030 at the latest. The company also aims to lead on decarbonising ocean shipping through the development of sustainable fuels.

(1) For our custom-built funds and direct equity holdings, we work with EOS at Federated Hermes to coordinate engagement efforts on our behalf.

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

2.3

Climate transition plan: Scope and approach

Our Climate transition plan focuses on the delivery of our 2030 decarbonisation ambitions, supporting further work on our journey to net zero by 2050 across our financed emissions, AUM and our operational value chain. Due to the materiality of emissions associated with our financing activity, this section primarily focuses on our financed emissions transition plan including actions to achieve our 2030 ambition to at least halve the climate impact of our financing activity and our sector based SBTi validated targets.

NatWest Group Climate transition plan for lending and investments includes analysis of:

Products, services and business model

Refer to sections 2.4 for further details

Supporting our customers' transition remains a key driver in the ongoing development and delivery of our transition plans. Business teams within each sector have worked to identify products, services and business model changes to support customer transition. Where possible, this analysis has been performed at a subsector level to ensure actions most relevant to customers within these segments are identified within the transition plan.

Financial planning

Refer to section 2.5 for further details

During 2023, we focused on enhancing the linkage between our Climate transition plan and the financial plan and we will continue to develop this alignment during 2024 as part of the evolution of our Climate transition plan.

Sensitivity analysis including dependence on government policies

Refer to section 2.6 for further details

NatWest Group's initial Climate transition plan was developed with reference to the UK's statutory commitment to reducing greenhouse gas emissions to net zero by 2050. To assess the climate impacts of policies on our climate transition plans, we used the UK CCC Balanced Net Zero (BNZ) pathway scenario, aligned with the UK's Sixth Carbon Budget, as a starting point.

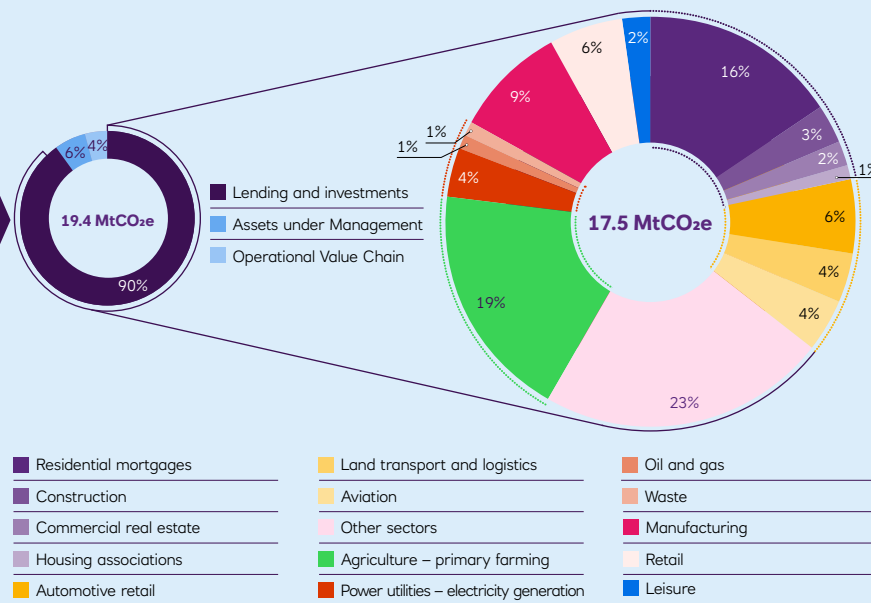
In addition, we have used the credibility ratings for sectoral policies provided by the UK CCC June 2023 Progress Report to develop a BNZ adjusted pathway to reflect estimated time delays based on credibility ratings as follows:

- **Credible Policies:** No adjustment to the UK CCC BNZ pathway for associated policies.
- **Policies with some or significant risk:** estimated 3-5 year delay for associated policies, respectively.
- **Policies with insufficient plans:** estimated 10-year delay for associated policies.

In cases where the UK CCC June 2023 Progress Report has provided commentary on policies without providing a credibility rating, we have not adjusted the BNZ pathway for our analysis.

Breakdown of NatWest Group's emissions^(1,2,3,4,5)(MtCO₂e)

The scale of our current emissions varies across different activities



(1) The percentages included in the chart above are based on absolute emissions as physical emissions intensities are not additive. Other sectors represents estimated financed emissions on 22% of our in-scope loans and investments (23% estimated financed emissions) as at 31 December 2022, primarily relating to a collective estimation approach, where a common methodology has been applied to sectors and sub-sectors not individually analysed. This includes 1 MtCO₂e for services-related activities, 0.8 MtCO₂e for transport-related activities, 0.5 MtCO₂e for agriculture-related activities and 0.4 MtCO₂e for natural resources-related activities.

(2) Refer to section 5.4 for our details on estimates of facilitated emissions from corporate bond underwriting.

(3) Refer to section 2.4, 5.2 and 5.3 for further details on emissions from lending and investments (financed emissions). Figures presented above are reflective of emissions from lending and investment as at 31 December 2022.

(4) Refer to section 6 for further details on emissions from assets under management (financed emissions and other metrics) and Climate transition plan. Figures presented reflect managed emissions from equity and corporate fixed income values as at 31 July 2023. Carbon emissions have been taken from 31 December 2022.

(5) Refer to section 2.7 for further details on emissions from our operational value chain and related Climate transition plan. Figures presented reflect the reporting year of 1 October 2022 to 30 September 2023 and are shown gross of purchased renewable electricity.

2.3 Climate transition plan – scope and approach continued

Climate transition plan: Progress update

We continue to support our customers’ transition by offering products and services, as well as engagement and education tools like Carbon Planner and our Home Energy Hub. As is evident from the table below, our progress across sectors varies based on actions we take in providing products and services, as well as government policies, which provide an impetus to drive customer demand and technology developments. In particular:

- The funding of renewable electricity generation and therefore its overall expansion has reduced the dependence on fossil fuel generation, resulting in a decrease in absolute emissions by 1.7 MtCO₂e and physical emissions intensity by 53%, between 2019 and 2022.
- Scope 1 and 2 absolute emissions and physical emissions intensity for the oil and gas sector has reduced by 1.5 MtCO₂e and 12% respectively.
- In residential mortgages, we have provided £9.3 billion funding for EPC A and B rated properties since July 2021, including £3.9 billion in 2023.

The table below includes the following for each sector analysed within our Climate transition plan as at 31 December 2022 (i) estimated absolute emissions (ii) estimated physical emissions intensities (iii) estimated physical emissions intensity based on convergence points⁽¹⁾ aligned to external scenarios and (iv) RAG status based on comparison of 2022 convergence point and 2022 estimated physical emissions intensities. Refer to section 2.7 and 6 respectively for updates against our operational value chain and assets under management (AUM) transition plans.

Sector model	2022				2021
	Scope 1 and 2 (MtCO ₂ e)	Physical emissions intensity ⁽²⁾	Convergence point	RAG	RAG
Residential mortgages	2.8	38.4 kgCO ₂ e/m ²	33.3 kgCO ₂ e/m ²	■	■
Commercial real estate	0.3	51.5 kgCO ₂ e/m ²	54.0 kgCO ₂ e/m ²	■	■
Agriculture – Primary farming	3.4	1,860 tCO ₂ e/£m	2,009 tCO ₂ e/£m	■	■
Automotive manufacturing	0.0	258.6 gCO ₂ e/v-km	235 gCO ₂ e/v-km	■	■
Land transport and logistics					
Freight road	0.3	47.1 gCO ₂ e/t-km	34.8 gCO ₂ e/t-km	■	■
Passenger rail	0.1	74.3 gCO ₂ e/p-km	44.9 gCO ₂ e/p-km	■	■
Passenger road	0.3	111.8 gCO ₂ e/p-km	59.4 gCO ₂ e/p-km	■	■
Electricity generation	0.7	103.7 kgCO ₂ e/MWh	217 kgCO ₂ e/MWh	■	■
Oil and gas	0.2	3.6 tCO ₂ e/TJ	3.6 tCO ₂ e/TJ	■	■

2022 NatWest Group estimate – RAG status

- Above convergence pathway by over 5%
- Above convergence pathway by up to 5%
- Under or equal to convergence pathway

(1) Refer to section 5.2 for further detail of physical emissions intensity metrics used to estimate reduction required by 2030.
 (2) To estimate emissions intensity reduction required by 2030 (convergence year), we used externally published independent scenarios to estimate convergence points for 2022, 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 from 2019. The graphs included in this section include convergence points for 2030 and 2050, being the expected trajectory (convergence pathway) for alignment with the 2015 Paris Agreement. In general, we used the UK CCC’s BNZ scenario or the International Energy Agency Beyond 2 Degree Scenario (IEA B2DS) scenario for various sectors aligned with the Sectoral Decarbonization Approach (SDA) approach prescribed by the SBTi guidance. Aligned with the SBTi guidance, we used those scenarios which require greatest percentage reduction in intensity for each sector – refer to section 5.3 for scenarios used for each sector.

As part of developing our Climate transition plan, alongside estimating expected emissions and emissions intensity reduction through our own and our customers’ actions, we estimate the impact of external dependencies that will support the transition to net zero. To do this, we used the UK CCC’s sixth carbon budget, published in 2020, to set initial estimates of the contribution of external dependencies – particularly government policies, technology developments and resulting customer behaviour changes – towards NatWest Group and our customers’ transition. We have now updated our assessments to include updates from the UK CCC June 2023 Progress Report, which states only 25% of the UK’s emission reduction is on track with credible plans, with 30% of the reduction rated as having some risks and 23% and 18% having significant risks and insufficient plans.

Property, food and mobility-related sectors are most affected by policy delays. Refer to section 2.6 for current policy status based on the UK CCC’s assessment, published in June 2023 and our approach to Government and Policy engagement. Insufficient plans, as per the UK CCC’s assessment, mean that some policies will be implemented after 2030, making achievement of some of our 2030 climate ambitions increasingly challenging, in particular (i) 50% of our mortgage portfolio of EPC rating of C or above by 2030 and (ii) halving the climate impact of our financing activity by 2030, against a 2019 baseline. We will continue to review these ambitions as the external environment develops.

Given the scale of investment and the timescale required to transition, we expect to see an increasing proportion of future 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 to support net zero by 2050.

2.3 Climate transition plan – scope and approach continued

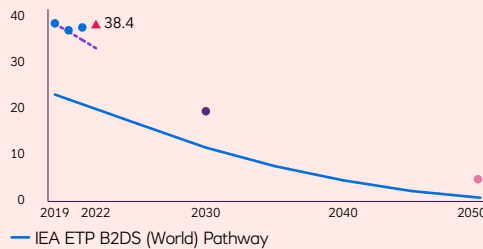
Climate transition plan: progress update

Our ambition to be net zero by 2050 is aligned with the 2015 Paris Agreement’s overarching goal to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. 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 sections 5.1, 5.2, 5.3, 7 and our 2023 Sustainability Basis of Reporting for details of scenarios used, methodologies and limitations. Also included is the progress made against these pathways between 2019 and 2022.

Property-related sectors

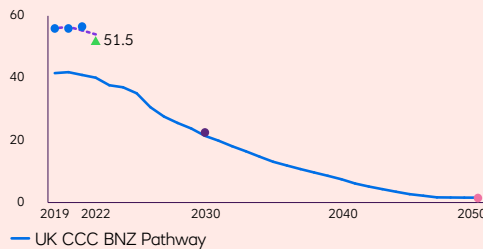
Residential mortgages

Estimated emissions intensity (kgCO₂e/m²)



Commercial real estate

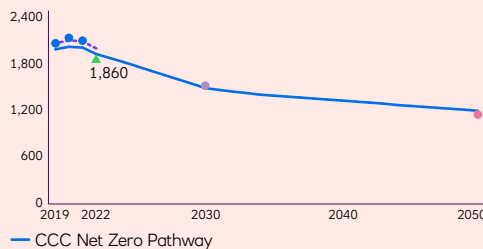
Estimated physical intensity (kgCO₂e/m²)



Food-related sectors

Agriculture – primary farming

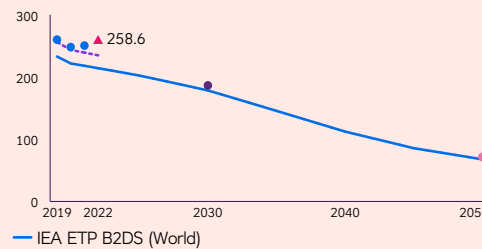
Estimated revenue intensity (tCO₂e/£million)



Mobility-related sectors

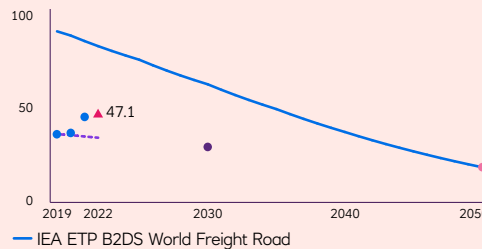
Automotive manufacturing

Estimated emissions intensity (gCO₂e/vkm)



Land transport – freight road

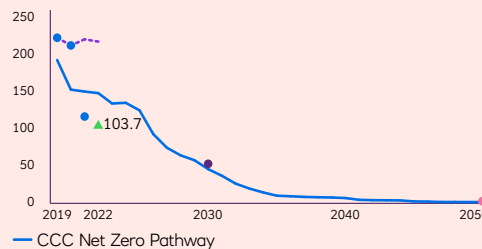
Estimated emissions intensity (gCO₂e/t-km)



Energy-related sectors

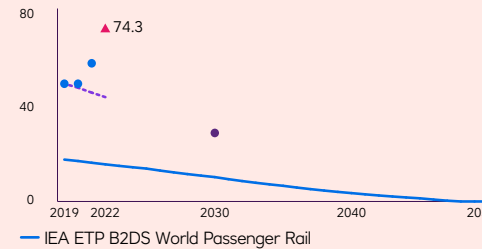
Electricity generation

Estimated emissions intensity (kgCO₂e/MWh)



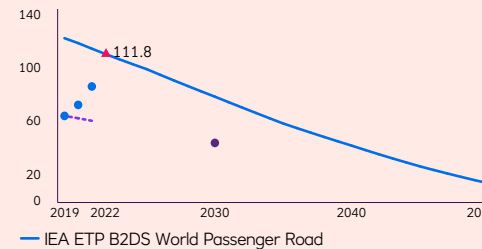
Land transport – passenger rail

Estimated emissions intensity (gCO₂e/p-km)



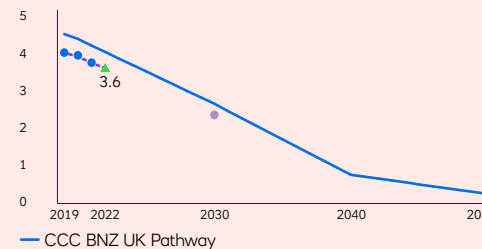
Land transport – passenger road

Estimated emissions intensity (gCO₂e/p-km)



Oil and gas

Estimated production intensity (tCO₂e/TJ)



Key

- 2019 – 2021 NatWest Group estimates
- 2030 SBTi validated physical intensity target
- 2030 physical intensity ambition
- 2050 convergence point
- Convergence pathway

2022 NatWest Group estimate – RAG status

- ▲ Under or equal to the convergence pathway
- ▲ Above convergence pathway by up to 5%
- ▲ Above convergence pathway by over 5%

Refer to our 2023 Sustainability Basis of Reporting.

2.4 Products, services and business model changes

Property-related sectors

As one of the largest mortgage 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. Buildings are the UK's second highest-emitting sector, accounting for 17% of total emissions.

Decarbonisation will require retrofitting existing buildings to enhance their energy efficiency, constructing new energy efficient buildings and reducing emissions associated with electricity and heating supplies.

We continue to develop a range of products and services and continue to enhance our business model to support decarbonisation. Key examples include:

Residential mortgages:

Within Retail Banking we offer a suite of incentivised green mortgage products including purchase, re-mortgage and Buy-to-Let products. During 2023, Retail Banking provided £1.5 billion⁽¹⁾ in Green Mortgages, £4.4 billion⁽¹⁾ since launch in Q4 2020. Coutts mortgage products also offer discounted arrangement fees for purchasing a more energy efficient home with an EPC rating of A or B, or for making home improvements resulting in an EPC rating of A-C.

NatWest Group provided £3.9 billion in lending towards EPC A and B residential mortgages during 2023 against its aim to provide £10 billion between 1 January 2023 and the end of 2025, comprising £3.7 billion in Retail Banking and £0.2 billion in Private Banking.

In November 2023 we launched our Home Energy Hub, which is a further development of our Home Energy Plan, launched in December 2022, and incorporates a number of new partnerships. Publicly available and free to use, the tool offers homeowners across the UK their Home Energy Plan which includes an estimated EPC and high level retrofit measure recommendations.

Users of the Hub can then go on to book a discounted in-home energy assessment with our partner Vibrant, receiving more detailed retrofit and energy efficiency recommendations. They are then presented with installation pathways with both TrustMark and British Gas, and links to financing options from NatWest. We have also teamed up with Snugg to offer customers information on Government grants available, based on their postcode.

In 2023 we completed our Greener Homes Retrofit Pilot with the Sustainable Homes and Buildings Coalition, culminating in the third “Home is Where the Heat Is” report, launched in Parliament in September 2023. As part of this we took nine NatWest Group and British Gas customers through a fully funded end-to-end home retrofit which provided insights into customer, market, industry, financial and policy barriers to retrofitting.

Commercial real estate:

We have supported the development of energy efficient housing stock via our risk appetite for new build homes, which is restricted to financing only EPC A or B homes since 2020.

During 2023 commercial real estate completed £0.4 billion in SLLs, which contributed towards our climate and sustainable funding and financing target.

We also introduced an updated climate TAS requirement, which requires an EPC transition plan covering assets with an EPC rating of D-G. In the absence of an EPC transition plan, we require the calculation of an ‘EPC adjusted’ interest cover ratio, subject to a limited number of exceptions e.g. legally exempt from Minimum Energy Efficiency Standard (MEES) regulations. The updated TAS does not impact credit appetite as at the date of this report.

Housing associations:

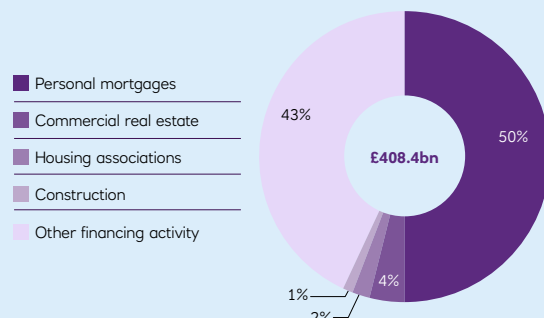
Housing Finance completed £0.3 billion in SLLs during 2023, which contributed towards our climate and sustainable funding and financing target. We also continued to support the Social Housing Sustainability Reporting Standard as an early adopter to enable housing associations to report ESG performance in a transparent, consistent and comparable manner.

We continued working collectively with Pineapple Sustainable Partnerships, Places for People, British Gas Centrica and Schneider Electric to establish a business model for large-scale delivery of retrofits. The pilot will provide useful insights into the retrofit process and could act as a catalyst to develop supply chains and technology to boost private sector retrofits. Read more on page 33.

Construction:

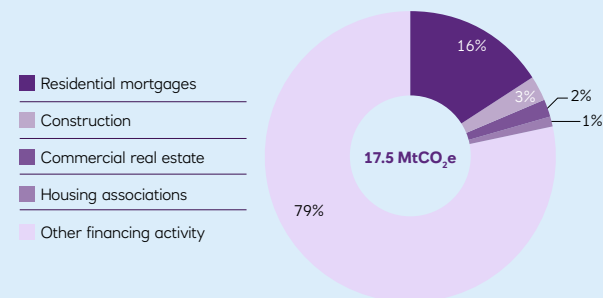
In August 2023 NatWest Group became the Supply Chain Sustainability School's first partner within the finance sector to sponsor retrofit learning modules, ensuring resources are freely accessible to professionals in the built environment industry. With 80% of the UK's projected 2050 building stock already built, these skills are vital to creating more energy efficient homes and buildings that are warmer, cheaper to heat and generate lower emissions.

57% of NatWest Group financing activities at 31 December 2022 is aligned to property-related sectors⁽¹⁾



(1) Comprises loans and advances and debt securities amortised cost and FVOCI, including disposal group, gross of ECL. Refer to page 68 for further detail of amounts analysed for financed emissions.

21% of NatWest Group financed emissions at 31 December 2022 are aligned to property-related sectors⁽²⁾



(2) Analysed as part of the Climate transition plan.
(* Within the scope of EY assurance. Refer to page 6.

2.4 Products, services and business model changes continued

Residential mortgages portfolio: Energy efficiency

During 2023, we focused on public policy engagement and working with partners to help identify levers to unlock property decarbonisation through improving energy efficiency in buildings, particularly homes. For further detail on dependencies faced by property-related sectors refer to section 2.6.

£3.9 billion
in lending for residential properties with EPC ratings A and B provided during 2023.

As part of our climate and sustainable funding and financing target, we aim to provide at least £10 billion in lending for residential properties with Energy Performance Certificate (EPC) ratings A and B between 1 January 2023 and the end of 2025.

44.1%*
of our UK residential mortgages portfolio that had EPC data available was rated as EPC A to C.

Against our ambition for 50% of our mortgage portfolio to have an EPC rating of C or above by 2030.

As at 31 December 2023 £140.8 billion, 67.6%, of the total residential mortgages portfolio had Energy Performance Certificate (EPC) data available (31 December 2022 – £138.8 billion, 68.3%), of which 44.1%* were rated as EPC A to C (31 December 2022 – 41.6%).

Data source and limitations: EPC data is 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.

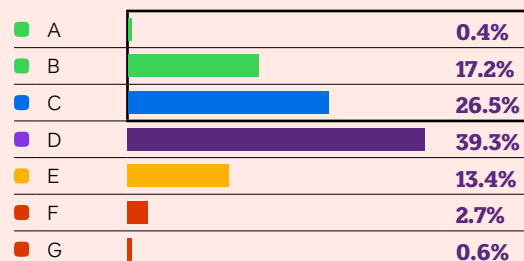
The data is drawn from EPCs issued for domestic and non-domestic buildings constructed, sold or let since 2008. It provides information on the energy efficiency ratings of domestic and non-domestic buildings during the energy assessment process. The registers do not hold data for every domestic and non-domestic building, or every building occupied by public authorities in England and Wales.

For mortgages on 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.

An EPC is required when a building is constructed, sold or let, and is valid for 10 years. As a result, the EPC analysis is based on EPC data at the time it was last available. New certificates typically take three to six months to be included in the data source.

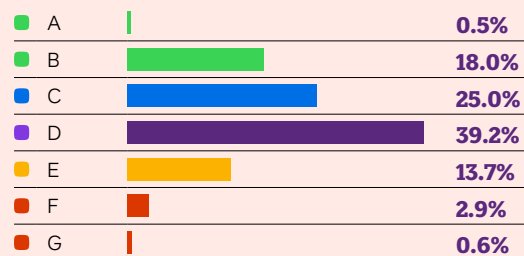
(* Within the scope of EY assurance. Refer to page 6.

Total residential mortgages with EPC data available for December 2023



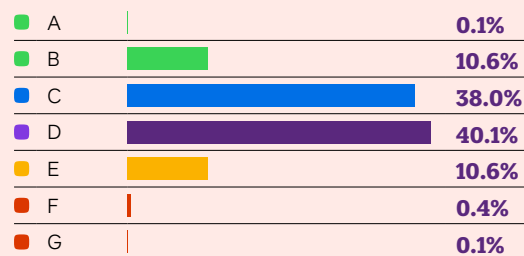
Total⁽¹⁾
£140.8bn

Owner occupied mortgages with EPC data available for December 2023



Total
£125.0bn

Buy-to-let mortgages with EPC data available for December 2023



Total
£15.9bn

(1) Total does not cast due to rounding.

2.4 Products, services and business model changes continued

Supporting the scale up of retrofit expertise

South Coast Insulation Services (SCIS), a national, TrustMark-accredited energy efficiency provider, delivers home energy efficiency services, including insulation. Based in Hampshire, with offices in Devon, Gloucester and one shortly opening in Liverpool, its mission is to support customers with making homes in the UK safer, warmer and more energy efficient.

In 2023, NatWest Group supported SCIS with the acquisition of Cotswold Energy, a renewable energy specialist offering solar, ground and air source heat pumps, as well as electric vehicle solutions. A £6 million revolving credit facility helped to fund the transaction, support working capital requirements and provide further growth funding for the expanded business.

The acquisition helped SCIS develop its service offering further through the team's specialist expertise in delivering renewable energy projects and complex building retrofits. Cotswold Energy's recent projects include the installation of a water source heat pump, powered by the river Frome, in a 200-year-old former mill building used by Stroud District Council in Gloucestershire.

Looking ahead, we aim to continue to develop and deepen our relationship with SCIS. Our asset finance provider, Lombard, is supporting the company to invest in additional vehicles as the business continues to scale up. Our relationship managers meet regularly with SCIS's founder and its senior management team to leverage our internal and external networks and offer strategic input and introductions.

NatWest Group supported SCIS with the acquisition of Cotswold Energy, a renewable energy specialist offering solar, ground and air source heat pumps, as well as electric vehicle solutions.



According to the UK CCC, buildings accounted for **17%** of UK emissions in 2022.

The UK Government's Energy Security Bill has set a target of installing **600,000** heat pumps a year by 2028.

2.4 Products, services and business model changes continued

Food-related sectors

Agriculture has a vital part to play in ensuring food security in the UK economy and our continued support in transition as a market leader is central to this. Food-related sectors represent 35%⁽¹⁾ of UK greenhouse gas emissions. As a leading bank supporting UK farming, NatWest Group has an opportunity to play a key role in supporting the UK farming community in its transition to net zero while managing a variety of cost pressures.

We continue to develop a range of products and services and enhance our business model to support decarbonisation. Key examples in 2023 included:

We continued to develop partnerships with food manufacturers and retailers. During 2023 we announced a partnership with McCain Foods (GB) and through our asset finance arm Lombard, unveiled a first-of-its-kind initiative in the UK in which we offer additional financial support to McCain potato farmers. In addition, McCain Foods has also committed to contribute towards the interest payable for assets that support regenerative agriculture practices. Refer to page 18 for detail on the linkage between nature and climate change.

In May 2023 we published our Agriculture report which identifies some crucial steps that the industry can take towards a net-zero future. It focuses on the importance of industry partners working together to support the transition and discusses the work being undertaken within NatWest Group to support the sector.

We also worked to bring together players across the food and agriculture sectors in the UK to channel and scale private and public finance to support farmers.

In June 2023, we announced a one-year partnership with WWF, the world's leading independent conservation organisation, to support a sustainable and just transition for the UK food and agricultural sectors. In January 2024, NatWest Group was proud to sponsor WWF's 'Roadmap for financing a regenerative agricultural transition in England' report.

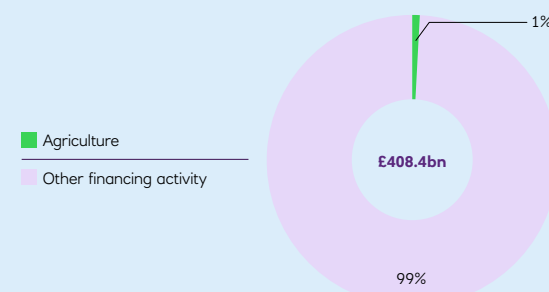
We continued to explore how the Global Farm Metric (GFM) Framework could support farmers. The framework enables farmers to understand the social, economic and environmental sustainability of their system in a way that is robust, holistic and independent of farming models. A common set of sustainability data also lets farmers share farm-level outcomes across the food and farming sector.

Following severe flooding in England and Wales during January 2024, we mobilised our agricultural team to support affected farming customers by offering individual financial solutions. This support builds on the bank's strong commitment to the agricultural sector. NatWest Group had previously confirmed a £1.25 billion lending package for farmers. This lending package supports the industry to deal with a variety of cost pressures, and to aid farmers in making the transition to more sustainable practices.

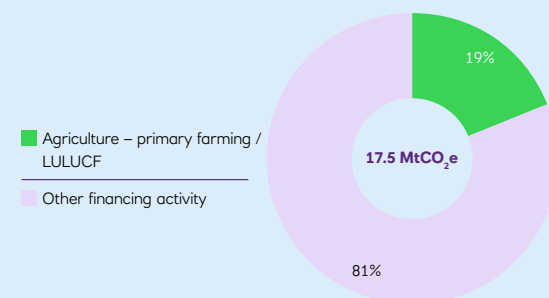
In January 2024, NatWest Group, through its asset finance arm, Lombard, launched a new partnership with agricultural market leader Cefetra to reduce the financial barriers for farmers transitioning to more sustainable agricultural practices. The collaboration aims to alleviate the financial burdens associated with acquiring new equipment and implementing advanced sustainability practices.

As part of our £100 billion climate and sustainable funding and financing target, we continue to **provide funding that meets customer need and provide incentives for 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 included within our CSFFI criteria under the "Sustainable Agriculture" category.

1% of NatWest Group financing activity as at 31 December 2022 is aligned to food-related sectors⁽²⁾



19% of NatWest Group financed emissions as at 31 December 2022 are aligned to food-related sectors⁽³⁾



(1) Source: WRAP 2022 Report – includes food and drink sourced domestically and overseas.
 (2) Comprises loans and advances and debt securities amortised cost and FVOCI, including disposal group, gross of ECL. Refer to page 68 for further detail on amounts analysed for financed emissions.
 (3) Analysed as part of the Climate transition plan.

2.4 Products, services and business model changes continued

Green finance enables family-run dairy to unlock energy savings

Quicke's Traditional is a Devon-based family business producing milk and artisan cloth-bound cheeses. The cheese business has been in operation for more than 50 years and the Quicke family has owned and farmed the land for 14 generations, dating back more than 400 years.

The business comprises two parts: selling milk produced on their farm – a mix of grassland, arable, and woodland – directly to dairy cooperative Arla, and the production of its own artisan cheese, which it manufactures using traditional methods before maturation over 12–14 months.

To supply Arla with milk, the business is required to measure its carbon footprint. Since 2021, the farm has also measured the impact of carbon sequestration using the Farm Carbon Calculator in conjunction with Duchy College. The farm business currently offsets 84% of its carbon emissions largely through woodland created by the family over the decades.

Keen to operate more sustainably and bring down the cost of its energy consumption – the majority of which relates to keeping cheese cool in large refrigeration units, milking cows and cooling milk – Quicke's Traditional approached their NatWest Group relationship manager for advice on cost effective financing solutions. The company originally estimated the use of solar panels could potentially decrease its annual electricity costs by £38,000. It also wanted to explore how battery storage could help store surplus energy and even sell it back to the national grid.

As a result of discussions, we were able to provide a Green Loan for £150,000, with no arrangement fees, to support the farm with its solar project.

The family was delighted we could support the business's sustainability ambitions. Soon after the loan was drawn, the solar arrays were installed on site and connected in January 2024. While too early to have a clear view of actual energy savings delivered through the new panels, the installation represents a positive step towards the company's ambition to become net zero by 2030.



Quicke's Traditional approached their NatWest Group relationship manager for advice on cost effective financing solutions. We were able to provide a Green Loan for £150,000, with no arrangement fees, to support the farm with its solar project.

2.4 Products, services and business model changes continued

Mobility-related sectors

Mobility-related sectors can decarbonise through a reduction in demand for travel or a shift in transport modes, for example, from private car to public transport, supported by improved energy efficiency and the decarbonisation of energy.

We continue to develop a range of products and services and continue to enhance our business model to support decarbonisation. Key examples in 2023 include:

Automotive

We continue to build awareness and understanding via our EV Planner. NatWest Group is working with Diode, a UK-based technology company, to pilot an EV Planner offering, which is free for all businesses. This tool is intended to help support businesses to become more sustainable while helping them to identify potential cost savings.

During 2023, 57 businesses signed up to EV Planner, with 339 users obtaining an EV readiness report.

We continued to support a dedicated Clean Transport Accelerator in conjunction with the Warwick Manufacturing Group (WMG), seeking to support the scale-up of early stage clean transport companies. Since inception in April 2022, 36 individual businesses, across three cohorts, have taken part in the six-month programme.

Lombard collaborated with Transport for London (TfL) to support businesses to transition to Ultra Low Emission Zone compliant vehicles, providing access to an arrangement fee free digital application route.

We continued to support our customers in the transition to EVs, specifically Volkswagen Group, one of the world’s leading automobile manufacturers and the largest car maker in Europe, by acting as active bookrunner for their €1.75 billion dual-tranche green bond issued in April 2023, the first bond issued under its revised Green Finance Framework.

Aviation

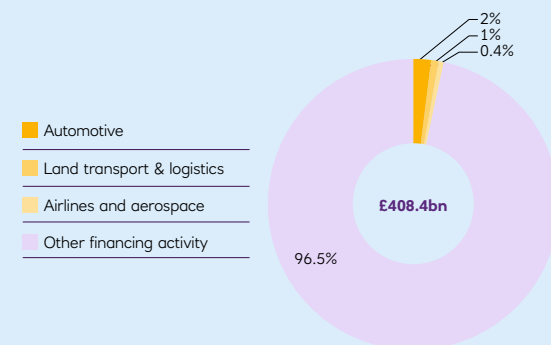
NatWest Group exposures within the aviation sector primarily relate to secured asset financing against new generation aircraft supporting commercial airlines to reduce their CO₂ per seat mile.

Land transport and logistics

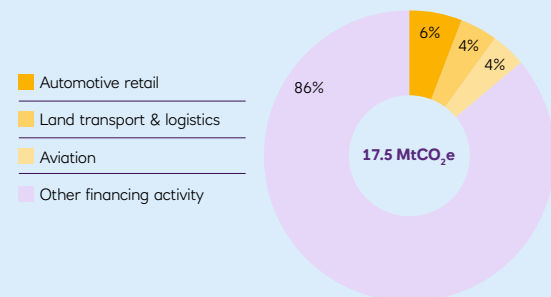
Through the movement of goods and people the land transport and logistics sector is a key enabler of the UK economy. **NatWest Group is supporting the adoption of mass transit by providing climate and sustainable funding and financing,** including a range of low emission, electrified and alternative fuel assets.

NatWest Group also sought to support decarbonisation within the rail sector by providing sustainable finance to Nexrail during 2023. NatWest participated in a 10-bank syndicate for a sustainability linked debt facility, specifically agreeing a €30 million hold in the €322 million financing package to help refinance existing debt, fund the purchase of the new energy efficient locomotives and secure liquidity for further purchases of new assets.

3% of NatWest Group financing activity as at 31 December 2022 is aligned to mobility-related sectors⁽¹⁾



14% of NatWest Group financed emissions as at 31 December 2022 are aligned to mobility-related sectors⁽²⁾



(1) Comprises loans and advances and debt securities amortised cost and FVOCI, including disposal group, gross of ECL. Refer to page 68 for further detail of amounts analysed for financed emissions.
 (2) Analysed as part of the Climate transition plan.

2.4 Products, services and business model changes continued

Helping to shape the future of transport

According to UK Government research, in 2021 transport was responsible for 26% of greenhouse gas emissions in the UK. Cutting emissions in the sector is vital to the UK's commitment to reach net zero by 2050 and has the potential to bring benefits for health and wellbeing, as well as opportunities for economic growth.

NatWest Group's Clean Transport Accelerator is a partnership with WMG (Warwick Manufacturing Group), an internationally renowned department at the University of Warwick focused on innovation in science, technology and engineering.

Launched in 2022, the accelerator supports businesses creating the next generation of transport by offering help to fast-track innovations, as well as access to experts in clean transport and equipment. Onboarded businesses receive tailored business mentoring, as well as access to thought leadership events and group acceleration sessions with other members of their cohort.

Businesses also gain access to the technical and industry expertise of WMG, including help with building prototypes, creating manufacturing processes, adopting new technologies and sourcing materials.

Adam Walters, an Enterprise Acceleration Manager based at the Clean Transport Accelerator, works directly with the participants. "We're getting people from a range of backgrounds – from a company that makes kids' bikes, to a student startup focused on drone technology, as well as businesses developing new technologies that support mass transport, like trains and aircraft," Adam says. "They're all important to supporting the transition to net zero."

One such example is Flux Aviation, a start-up developing ultra-high performance electric motors and batteries to power next-generation electric aircraft. The company's integrated battery-electric powertrains are compatible with many existing aircraft types and combine electric motors, control electronics and batteries in a single package to make retrofitting aircraft as easy as possible.



“Every element is undergoing unprecedented transition and unparalleled disruption with climate being the primary driver. The significant scale of disruption provides an opportunity for UK businesses to play a major role in transforming existing modes and methods of transport to drive decarbonisation on the road to net zero.”

Richard Hill
Head of Mobility & Logistics, NatWest Group

2.4 Products, services and business model changes continued

Energy-related sectors

Energy impacts every system and sector, as it provides the physical means to transform natural resources into goods and services that benefit society, which may in turn generate further emissions.

Given the role energy is expected to play in the decarbonisation of other systems **we established a specialist team in 2022** with a focus on energy transition and the financing of a variety of sub-sectors and nascent technologies required for transition to a low-carbon economy including hydrogen, carbon capture, electrification of transport, biofuels and nuclear.

In addition, we published **our Energy Transition Report**, alongside Boston Consulting Group (BCG). The report, published in December 2023, highlighted the significant opportunity for public and private capital in enabling successful transition to net zero, including the significant investment required in renewable generation, network infrastructure and new technologies such as energy storage systems, carbon capture and storage, and hydrogen.

We continue to develop a range of products and services and enhance our business model to support decarbonisation. Key examples in 2023 include:

Electricity generation

NatWest Group has been a leading loan arranger to the UK power infrastructure⁽¹⁾ and renewables sector over the last 10 years⁽²⁾. During 2023, we provided £1.8 billion of climate and sustainable funding and financing to solar and wind projects.

As the UK continues to transition to a net-zero energy system the Battery Energy Storage Systems (BESS) market will play an important role in balancing grid instability. NatWest Group arranged, structured and advised on multiple financings in the BESS sector. For example, in Q4 2023 NatWest supported Varco Energy Limited, by providing, as sole lender, £58 million of facilities to support new projects in the UK which intend to generate 114MWs of energy once completed.

Oil and gas

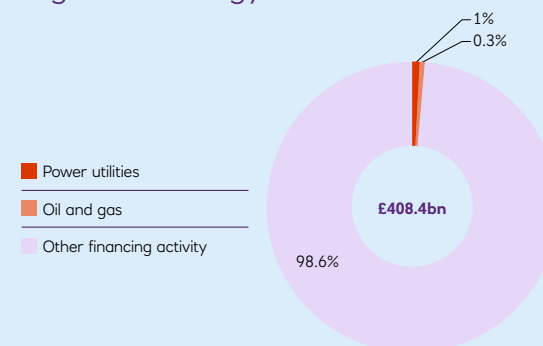
In 2021, NatWest Group completed **a point-in-time CTP⁽³⁾ assessment for oil and gas majors and in-scope coal customers**, which utilised a top-down approach. This resulted in customers defined as in-scope for our harmful activities metric, where exposure is monitored annually against our ESE risk framework. Refer to pages 30 and 31 of the 2021 NatWest Group Climate-related Disclosures Report for further details.

As at 31 December 2023 our exposure to oil and gas majors amounted to £0.4 billion⁽⁴⁾ (31 December 2022 – £0.9 billion), representing 12.5% of the total exposure to the oil and gas sector. Exposure to coal customers, in-scope of the CTP assessment, was £0.3 billion⁽⁴⁾ as at 31 December 2023, stable with 2022.

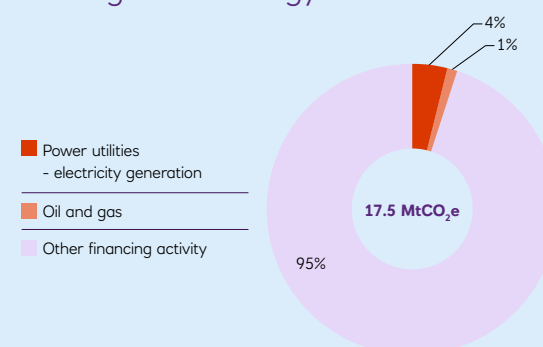
NatWest Group continued to utilise its ESE risk framework, which is reviewed on a regular basis, to identify any customers requiring enhanced due diligence. Our credit structuring guidelines also identify potential conflicts with our climate ambitions. Refer to page 32 for details of our evolving approach to customer engagement including our Climate Decisioning Framework (CDF).

On 9 February 2023, we announced that with immediate effect we will no longer 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 of financing oil and gas exploration, extraction and production.

1% of NatWest Group financing activity as at 31 December 2022 is aligned to energy-related sectors⁽³⁾



5% of NatWest Group financed emissions as at 31 December 2022 are aligned to energy-related sectors⁽⁴⁾



(1) Power infrastructure comprises battery storage, electricity distribution, electricity smart meter and electricity transmission.
 (2) NatWest Group ranked first among loan arrangers by deal value for the period 2014-2023. Source: Infralogic 31 December 2023
 (3) During 2021, we concluded 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.
 (4) Comprises loans and advances and debt securities amortised cost and FVOCI, including disposal group, gross of ECL. Refer to page 68 for further detail of amounts analysed for financed emissions.
 (5) Analysed as part of the Climate transition plan.
 (*) Within the scope of EY assurance. Refer to page 6.

2.4 Products, services and business model changes continued

Helping to finance the energy transition

Driven by the UK Government commitment to reach Net Zero by 2050, the UK energy market is undergoing a transition away from traditional fossil fuel power generation to renewables. According to the National Grid, by the end of 2022 39.1% of electricity demand was already met by renewable energy sources (wind, solar, biomass, hydropower and storage), while coal only contributed 1.5% ⁽¹⁾.

This growth in renewables has resulted in a greater need for balancing services due to the higher intermittency of renewable generation and the potential for system volatility.

The National Grid Electricity System Operator has to constantly balance supply and demand across the network. This is where grid-scale BESS assets are essential. Ideally suited to ensuring stability of supply, these energy storage systems mitigate the intermittent nature of renewable energy generation, helping to break the UK's reliance on fossil fuels while supporting the rollout of renewable generation.

Pacific Green has a multi gigawatt/hour (GWh) pipeline of BESS systems in development over the next 48 months, reaching across the UK, Europe and Australia. They also recently sold a 100MW BESS site at Richborough Energy Park, Kent.

When Pacific Green started to look for financing for its Sheaf Energy Park project – a 1.5hr, 249MW/373.5MWh transmission-connected BESS site expected to be operational by Q2 2025 – the company approached NatWest Group.

Following discussions with the Pacific Green team and a detailed analysis of the business' funding requirements and forecast revenue streams, our team successfully led and coordinated – in the role of lead Structuring Bank, Agent, and Security Trustee – a syndicated financing of a £120 million capex facility and a £3.5 million VAT facility for Sheaf Energy Limited, at the time a wholly-owned subsidiary of Pacific Green. Sheaf Energy Limited has subsequently been acquired by Sosteneo Fund 1 Holdco, part of the Generali Investments ecosystem.

The two-bank syndicate included the UK Infrastructure Bank (UKIB) and NatWest Group, with each holding a 50% share in the capex facility. NatWest Group solely funded the VAT facility and acted as foreign exchange and hedge counterparty for the transaction.

It's one of several BESS-related financing deals NatWest Group has been involved in, which form part of our target to provide an additional £100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025. Further details can be found at natwestgroup.com.



When Pacific Green started to look for financing for its Sheaf Energy Park project – a 1.5hr, 249MW/373.5MWh transmission-connected BESS site expected to be operational by Q2 2025 – the company approached NatWest Group.

(1) Britain's Electricity Explained: 2022 Review | ESO (nationalgrideso.com)

2.4 Products, services and business model changes continued

The role of financial institutions

The global financial system holds the capital capable of unlocking decarbonisation in the real economy, ultimately helping to deliver the transition towards net zero. Regulators, investors and capital providers increasingly expect Financial Institutions (FIs) to evidence robust sustainability strategies. Our climate ambition recognises the importance of supporting FI customers to create sustainable businesses. As an FI, NatWest Group aims to support systemic change in the real economy, aligned to our strategic ambitions.

Financial institutions play a critical role in the allocation of capital towards supporting decarbonisation, over and above driving behavioural change through their own commitments. Whether through direct or indirect investment, financing of technologies, projects, and companies or by transferring risks associated with transition finance through hedging or securitisation instruments, FIs have a multiplier effect when facilitating financial flows to support net zero. NatWest Group's specific purpose wholesale lending and sustainability linked lending to the FI sector was £3.1 billion in 2023⁽¹⁾. In addition, in 2023 we underwrote a notional volume of £28.3 billion of green or sustainability labelled bonds for financial institutions globally, including SSAs.

Products, services and business model changes to support decarbonisation

We identified four focus areas to drive decarbonisation and commercial growth opportunities with FI customers:

- **Innovative products and advisory services:** We deliver a market-leading, holistic proposition to customers including: liquidity and funding strategies aligned to their climate and sustainability strategies (both use of proceeds and sustainability linked transactions), ESG ratings management, regulatory and investor relations' support, as well as hedging innovation. One such example saw EQT Fund Management S.a.r.l sign a €2.9bn subscription line facility in May 2022 for its flagship fund EQT X (Article 8) comprising a 24 bank syndicate, which was subsequently up-sized to €4.6bn in June 2023. NatWest Group was mandated as joint sustainability co-ordinator. The facility incorporated four KPIs aligned to the firm's strategy: science-based GHG emissions reduction targets, an increase in gender diversity, sourcing of renewable energy and the implementation of ESG transformation initiatives.
- **Transition plan methodology:** Customer journeys with FIs are increasingly informed by the emerging trend away from ESG-labelled products and towards ESG profiles and transition plans. To this extent, as part of the broader roll-out of our CDF – refer to page 32 – we developed a bespoke methodology for FIs to support strategic customer engagement in 2023, which will be rolled-out in 2024.
- **Sustainable digital platform solutions:** We are accelerating the development of new climate and ESG digital product propositions for our FI customers with the aim to deliver scalable solutions in a rapidly changing landscape.
- **Education and industry action:** In 2023, we continued to collaborate with industry bodies to accelerate change across the FI ecosystem. NatWest Group hosted the inaugural ESG Sovereigns, Supranationals & Agencies (SSA) Issuer & Investor 'speed dating' event to support interaction between market participants. We also published the results from our 'Global Fixed Income Investor Survey: Climate Risks and Opportunities: What Debt Investors Expect from Issuers,' which surveyed 225 asset managers involved in making or executing decisions related to fixed income and related ESG strategies to see where they stand on climate transition and physical risk relative to their portfolios.

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 credible transition plans for their customers, which will feed through the FI ecosystem and supply chains.

As with the latest iteration of our Climate transition plan, the potential for FIs and private sector finance to support the transition is dependent on long-term and ambitious climate policy, secured through systemic buy-in from governments, and supported by adequate public funding to fill the risk appetite gaps or development risks.

NatWest Group as a market participant in 2023

In our role as a financial institution, in 2023 we continued to innovate, structure and originate climate and ESG product solutions to help our customers across all sectors in the wider economy meet their transition and broader sustainability goals. Instruments included:

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green and sustainability bonds, totalling a notional amount of £46.1 billion equivalent (£10 billion⁽¹⁾ equivalent attributable to NatWest Group) with Green Bonds representing 84% of total notional.

23

auction bonds totalling £2.4 billion⁽¹⁾ towards our climate and sustainable funding and financing target.

To this extent, we maintained our position as a leading green, social and sustainability debt (GSS) bookrunner in our chosen markets and geographies, ranking #1 lead manager for Global GBP issuance, #1 for UK Financial Institutions and #4 Western European Corporates⁽²⁾.

£10.5 billion

of specific purpose wholesale lending and sustainability linked lending⁽¹⁾.

£410.3 million

notional value in ESG-linked deposits, as part of the NatWest Markets Short-Term ESG Product Framework (as at 31 December 2023).

Acted as dealers for 10 ESG-labelled commercial paper programmes.

NatWest Markets was named:

Best Bank for Sustainable Finance in the UK, Global Finance's Sustainable Finance Awards 2023.

Lead manager of the year, sustainability bonds – corporate, Environmental Finance's Bond Awards 2023.

(1) For the year ended 31 December 2023, the NatWest Group CSFFI criteria published in December 2022 was used to determine the assets, activities and companies that are eligible to be counted towards our climate and sustainable funding and financing target. Lending amounts represent total commitment and include any undrawn portion of committed credit limits.

(2) Ranked by deal value among bookrunners for supporting issuers for green, social and sustainability (GSS) debt issuance. Source: Dealogic, 31 December 2023 – excludes money market and short-term debt.

2.4 Products, services and business model changes continued

Our evolving approach to customer engagement

We continue to implement and refine our Climate transition plan and identify further opportunities to support our customers’ transition to net zero. In 2023, we continued to develop our Climate Decisioning Framework (CDF) tools within the Commercial & Institutional business segment, to further embed climate within customer journeys to continually enhance decision-making.

Our main focus during 2023 has been the development of our CDF customer engagement tools: Customer Transition Plan Assessment (CTPA) and Climate Risk Scorecards (CRS). These tools have been designed to complement established climate engagement touchpoints with customers such as Transaction Acceptance Standards (TAS) and our initial suite of qualitative climate scorecards, described in further detail in section 3.2. They also build on our leading proposition Carbon Planner, a free-to-use digital platform designed to help UK businesses manage their future fuel and operational costs and reduce their carbon footprint. In addition to these tools, work is also ongoing to test and develop an internal carbon management framework and tools, which we plan to test in 2024 to continue further development.



Our CDF customer engagement tools		Developing capability
CTPA	CRS	
<p>CTPA, due to launch in early 2024, will be used by relationship managers to allow us to assess customers’ transition journeys relative to peers in their sector.</p> <p>Using CTPA, we will engage with customers to assess three key areas:</p> <ol style="list-style-type: none"> 1 Their historical progress on emissions reduction and their current Scope 1, 2 and 3 emissions. 2 Their interim and long-term emissions reduction targets, tailored to sectors and aligned to net zero. 3 Key components of their transition plan such as actions they plan to take and governance, including funding to meet their plan and engagement with their value chain. 	<p>CRS, due to launch in early 2024, will build on our existing suite of qualitative climate scorecards, through a more granular and quantitative assessment. CRS will be used by relationship managers to engage with customers on:</p> <ol style="list-style-type: none"> 1 Their exposure and management of transition risk, incorporating output from CTPA. 2 Their exposure and management of physical risk, considering their operating assets and supply chain through sector and geographic lenses. 	<p>To support the step change in engagement we aim to achieve through these tools, during 2023, we have focused efforts to develop a bespoke training programme for colleagues who will be using these tools as part of their day-to-day customer facing and support roles. This training has been designed to support relationship managers to understand the key factors the CDF tools will assess and why they are important in the management of climate risk, including the robustness of transition plans. During 2023, more than 3,000 colleagues completed the training programme and will continue to roll out training as we launch these tools across the Commercial & Institutional business segment.</p> <p>Further information on our approach to colleague engagement, refer to page 34.</p>
<p>Initially, these tools aim to significantly enhance the way we engage with customers on climate and understand their transition journeys and climate-related risk in a more granular and structured way. As we learn over time, we anticipate they will allow us to support our customers’ transition plans through providing funding, products and propositions that they may require to develop and implement their transition plans. Once embedded, and as we increase our data collection, these tools are intended to also support NatWest Group’s Climate transition plan and be embedded into decision-making. We aim to integrate these tools within existing customer journeys and systems to streamline how we engage with customers and fully embed climate as a key consideration.</p> <p>During 2023 we conducted a pilot to test these tools with a small number of customers in key sectors. Customers engaged well, understanding the need to develop more detailed transition journeys. However, climate data availability continues to be a challenge, especially for smaller customers.</p> <p>Given the scale of implementation, we recognise that these tools will take time to be fully implemented. Therefore, using the insights gained from our pilot, we intend to launch CTPA and CRS on a phased basis from early 2024, starting initially with customers in our large corporate and FI customer segments, where there is greater climate data availability and customer preparedness. We will continue to test-and-learn as we engage with these customers and increase our own capability during 2024 and beyond, using learnings and insights to consider how we progressively scale further across the wholesale portfolio. As we learn from our initial roll-out of CDF tools, we intend to continue to use our qualitative Climate Risk Scorecards to support ongoing customer engagement for remaining portfolios.</p> <p>For further details of our evolving approach to managing climate-related risk in the wholesale portfolio, refer to section 3.3.</p>		

Potential outcomes include supporting our customers to measure and take action to reduce their carbon footprint, supporting their transition journeys and their awareness of exposure to climate-related risk, enabling them to reduce costs and protect future viability of their business. This will also support NatWest Group to refine our own Climate transition plan and drive balance sheet management to meet our climate ambitions.

2.4 Products, services and business model changes continued

Industry engagement and collaborations

Combatting the impacts of climate change will require a collaborative and wide-reaching effort. We work with partners, stakeholders and peers to deliver our climate ambition, keeping in mind accordance with relevant anti-trust rules. During 2023, NatWest Group continued to engage with investors, non-governmental organisations (NGOs) and key stakeholders on the actions we are taking to play our part in helping to address the climate challenge. Below are some examples of how we partner with others to unlock transition opportunities.

Area of activity	Detail of collaboration
Engagement to influence the net-zero agenda	<ul style="list-style-type: none"> – The Transition Plan Taskforce (TPT) aims to support the standardisation of transition plans, which will drive commercial decarbonisation. NatWest Group’s CFO sits on the steering group, enabling NatWest Group to support the development and implementation of the UK’s Sustainability Disclosure Requirements. Additionally, our Head of Climate Change chairs the TPT Banks Working Group. – As a founding member of GFANZ, we continue to collaborate with peers, policy makers and other stakeholders. We co-lead the Energy and Real Economy Transition Plan Working Group. We continued to engage with NZBA, contributing to quarterly plenary calls on members’ progress towards NZBA commitments. – We are a signatory to the Net Zero Asset Managers initiative (NZAM) and member of the Institutional Investors Group on Climate Change (IIGCC), which helps to shape asset management net-zero standards. – Through International Capital Markets Association (ICMA) working groups we contributed to the Sustainability-Linked Bond Principles and the Climate Transition Finance Handbook, which provides guidance on how green bonds, sustainability bonds or sustainability-linked bonds can contribute towards transition strategy. – We were awarded a score A in the CDP Climate Change Survey (2022: B). – We continued to support the Sustainable Markets Initiative (SMI) and at the SMI’s Terra Carta Action Forum at COP27, we hosted an event in partnership with the SMI Agribusiness Task Force WWF-UK and Sustainable Food Trust, which was designed to drive powerful collaboration across industries and sectors to find the right solutions for farmers to tackle climate change.
Embracing innovation to help accelerate change	<ul style="list-style-type: none"> – We partnered with Absolar and Diode to provide serviced solutions to SMEs on installing solar panels, as well as supporting customers in their transition to EV vehicles and associated charging requirements. – In November, we launched our Home Energy Hub as an expansion to our existing Home Energy Plan product. The online portal provides homeowners with a single site to learn about potential home energy efficiency benefits, access to trusted tradespeople to deliver upgrades and finance options including available grant funding. The tool is available to both our existing 1.3 million mortgage customers and non-NatWest Group customers. – We partnered with Chameleon Technology as part of the UK Government’s Green Home Finance Accelerator Programme, and in 2024 will explore how smart meter technology might help our mortgage customers to reduce their energy usage.
Collaborations supporting decarbonisation	<ul style="list-style-type: none"> – We continued working as a coalition with Pineapple, Places for People, British Gas Centrica and Schneider Electric to explore options to deliver mass scale retrofits across the social housing sector. Through this partnership we launched a pilot to establish a business model for large-scale delivery of retrofit. The pilot will generate learnings on the retrofit process for NatWest Group and could also act as a catalyst to develop supply chains and technology to boost private sector retrofits. – We joined Bankers for Net Zero (B4NZ) who, alongside Icebreaker One, are convening a cross sector coalition to collaboratively shape the future of emissions reporting, ensuring a wide range of stakeholder needs are met. – We are in the process of piloting CFP’s Green Buildings Tool with our commercial real estate customers, designed to help them and our relationship managers identify opportunities for energy efficiency improvements. – In November 2023 we announced a partnership with Airbnb and the Energy Savings Trust to create an end-to-end journey supporting hosts to retrofit their homes, facilitated through NatWest Group finance options. – One of only two banks invited by the Green Finance Institute to participate in the exploration of a property-linked finance proposition for the UK market. Property-linked finance can help drive retrofits at scale by providing homeowners the upfront capital required to complete the work. Such loans would have attractive repayment terms and be automatically transferred to the new homeowner in case of sale. – We announced a one-year partnership with WWF UK, focused on policy and research campaigns that demonstrates how public and private collaboration can unlock financing to help farmers – especially those in the dairy industry – achieve sustainable climate and nature outcomes in the UK. – NatWest Group sponsored the Micromobility UK event in May 2023, in partnership with the Warwick Manufacturing Group High Value Manufacturing Catapult, University of Warwick. Micromobility – including the use of e-bikes and e-scooters – is an emerging sector with the potential to support transport decarbonisation.

2.4 Products, services and business model changes continued

Climate education and colleague engagement

At NatWest Group, we recognise the importance of investing in our people to build the future skills and behaviours we need to realise our climate ambition.

In 2023, we continued our £1.5 million partnership with the University of Edinburgh Centre for Business, Climate Change and Sustainability (UoE B-CCaS) to deliver tailored climate education to all NatWest Group colleagues (refer to [2022 Climate-related Disclosures Report](#) for further details). Content, designed at three different levels (Core, Common and Technical), delivered through our Natwest Learning Academy, supports the development of relevant colleague capabilities. This approach centres on three key ambitions:

- 1 Provide easily accessible climate awareness learning, enabling colleagues to take ownership and act.
- 2 Equip colleagues in priority roles with the capability to do their job and manage climate-related risks.
- 3 Inspire climate action and innovation through learning and professionalisation.

The aim is to create a consistent language across our organisation, promoting better discussions, decision-making and risk management.

Best Digital Learning Transformation Programme



Awarded gold at the 2023 Learning Technologies Awards for our Climate Change Transformation Programme created in partnership with UoE. This recognised our commitment to embedding transformation in a way that adds value to our customers and communities.

Core training – Provide easily accessible climate awareness learning.

In 2023, we committed to educate all colleagues through our **Climate Change Fundamentals** programme which was completed by c.55,000 colleagues across the bank. The 60-minute programme created in partnership with UoE was designed to enable all colleagues across the bank to continue to develop the knowledge, skills and behaviours, to understand their role in climate change, both personally and professionally.

Common training – Equip colleagues in priority roles.

Building on the Climate Change Fundamentals programme, in Q3 of 2023 we launched **Climate Pathways** as another step towards helping to address the climate challenge and driving positive change within the bank. Our first pathway, ‘How climate uncertainty impacts risk and opportunity’, was completed by c.16,000 colleagues, to reach our aim of having appropriate climate-related risk training across the business. Other topics included ‘Catalysing change through climate conversations’ and ‘Transitioning through institutional levers’ were made up of expert-led micro lectures, case studies and curated reading resources. Key impacts from the programme included increased colleague confidence and awareness in climate topics, with:

- 85% of respondents said they understood how climate uncertainty affects our business and customers.
- 79% of respondents said they understood how they could act on climate change in their roles.

In addition to programmes delivered with UoE B-CCaS, we also launched an internal **Greenwashing Awareness** training to c.15,000 colleagues, supporting their understanding of greenwashing and the importance of maintaining effective controls to mitigate any associated risks.

Technical training – Inspire climate action and innovation.

We continued to offer climate education programmes focused on real estate, retail and leisure, and manufacturing sectors. Since launch in 2022 over 705 colleagues have completed these programmes, including 192 in 2023. This was delivered by industry partners, academic leaders, and subject matter experts from within the business. Following completion of the three programmes, over 90% of respondents stated that ‘they will alter their actions on climate change professionally and their actions on climate change personally’.

We are also passionate about engaging with our colleagues, beyond education, to make the future more sustainable.

- **Sustainability Network (formerly known as Sustainable Futures Network)** is our employee-led network with over 3,100 members focused on empowering colleagues to embed sustainability at home and at work. In 2023, the network was recognised at the Global Good Awards for its ability to encourage sustainable behaviour among colleagues.
- **Giki Zero** is our carbon calculating employee engagement tool used by 5,400 colleagues, providing more than 160 climate action steps to help implement sustainable behaviours in everyday life.

2.5 Integration of our Climate transition and our financial plan

The **initial iteration of our Climate transition plan** outlined the importance of linking the transition plan with our financial plans. In 2023, we focused on enhancing the integration of our Climate transition plan to ensure our key decision-making processes actively consider climate and support strategic alignment with our 2030 climate ambitions. For details of our AUM Climate transition plan, refer to section 6.3.

Financial planning tooling was updated by colleagues across Finance and Technology, to allow all climate-related initiatives and sectors to be captured and modelled as part of the underlying financial planning process, enabling climate to be a focus from the outset of the financial planning cycle. The integration of climate-related opportunities modelling within our financial planning processes and systems allowed specific focus on climate parameters early in the planning cycle. This enabled detailed review and challenge of our forecast financial plan and associated emissions profile by senior stakeholder groups in Finance and wider business leaders.

Alongside the financial plan integration activity, new internal Climate transition plan financial dashboard tooling was developed to allow us to monitor progress against our Climate transition plan, at a sector and franchise level through the year. This enabled us to measure performance against our ambitions and to support decision-making.

Financial risks and potential opportunities included in our Climate transition plan

Through the integrated financial planning work and our Climate transition plan, we identified financial opportunities and investment required to support our net-zero ambitions that will be refreshed annually as part of the annual financial planning cycle. Financial opportunities from climate activities have been identified on a sector-by-sector basis through the Climate transition plan.


A key opportunity to support customer transition is our target to provide £100 billion of 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.

In addition to reviewing actual 2023 expenditure against budget, CCESG also supported the finalisation of investment allocated to support our customers' transition. This includes c.£20 million to support the ongoing development of climate-related opportunities and mitigation of climate-related risks during 2024. This central amount is in addition to climate-related activities that have been operationalised within existing teams. We expect that the centralised spending will reduce over time, as we further embed climate into our processes and decision-making.



Including climate transition assumptions into the base case scenario

During 2023, we continued to align our financial planning process with the climate transition planning process. This included adding climate policy and technology-related transition assumptions into the base case macroeconomic scenario used for financial planning and assessment of ECL in IFRS9 reporting. This resulted in an increase in ECL of £6 million. As in the initial iteration of the Climate transition plan, NatWest Group assesses the effects of climate transition policies within the base case macroeconomic scenario, using the UK CCC BNZ scenario, aligned with the UK CCC sixth carbon budget, as a starting point. The base case macroeconomic scenario now explicitly includes assumptions about the changes in transition policy expressed as an additional implicit carbon price. Implicit carbon price is an additional cost related to greenhouse gas emissions because of climate transition policy.

 **Refer to page 181 of the 2023 NatWest Group Plc Annual Report and Accounts for further details. For details of our assessment of expected and unexpected credit risk losses from climate change within ICAAP and ECL, refer to section 3.2.**

2.6 Sensitivity analysis including dependence on government policies

Government and policy engagement

As outlined in section 1.2 of this report, our climate ambitions are unlikely to be achieved without timely and appropriate government policy, technology developments, as well as supplier, customer, and societal response. Engagement with the UK Government continues to play a key role in our strategy to support the transition to net zero. We have focused our engagement on heat and buildings and food security as these areas have the most impact on the day-to-day lives of our customers. There is also significant potential for further evolution of government policy within these areas to support the transition to net zero. 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 following section includes details on the UK CCC credibility assessment of relevant policies. We used the credibility assessment of sectoral policies provided by the UK CCC June 2023 Progress Report to develop a BNZ adjusted pathway to reflect estimated time delays, as outlined on page 19.

During 2023 our key policy focus has been on how public policy can unlock:

1

Property decarbonisation through improving energy efficiency in buildings, particularly homes.



Our key policy asks:

- public awareness campaign on energy efficiency measures with a focus on dispelling myths around specific technologies.
- empowering the supply chain for national roll-out of home improvement and energy efficiency upgrades, including the establishment of local area energy planning and public/private co-ordinated retrofit training programmes.
- reform EPCs to ensure they reflect cost and carbon considerations, and are regularly updated, digitised and consistently reported within the private rented sector.
- public/private co-ordinated accessible finance for retrofits following a similar model to ‘Help to Buy’.
- introduction of an energy saving stamp duty rebate.

2

Agricultural decarbonisation that shares the costs and risk of farmers’ transition to achieve UK climate and nature targets



Our key policy asks:

- targeted fiscal incentives for critical agricultural activities, and public procurement for food that is healthy and sustainable.
- adoption of common metrics on climate and nature impact of farming activities through releasing standardised methodologies, and mandated reporting for metrics through the Food Data Transparency Partnership.
- support of regional farming clusters and networks to provide ongoing advice and support that builds farmers’ confidence in the transition.
- ensure the integrity of emerging financial instruments such as carbon and biodiversity credits through regulation of carbon standards and markets.
- integrated approach between the land use framework and food policy to ensure alignment of incentives that address climate, nature and nutrition.

During 2024, 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.

(1) During 2023, NatWest Group made no political donations, nor incurred any political expenditure in the UK or EU. Refer to page 168 of the 2023 NatWest Group Plc Annual Report and Accounts for further detail.

2.6 Sensitivity analysis including dependence on government policies continued

Property-related sectors: policy environment

The 2023 UK CCC Progress Report, published in June, rated the UK policy framework to incentivise and compel the transition to a low-carbon built environment is at “significant risk” of not achieving the BNZ pathway to 2030, due to a lack of details on policies that would support the Government’s broad ambitions for the buildings sector. This risk was further exacerbated by uncertainty over the long-term direction of policies for the buildings sector, in particular regarding the future of fossil fuel boilers, and amendments to requirements placed upon residential landlords to upgrade EPCs for rental properties. The UK CCC has also warned of systemic uncertainty regarding the future role of hydrogen and electrification, particularly in terms of heat for buildings.

Update against key policy drivers to support emission reductions		UK CCC (June 2023) credibility assessment	
Residential		2022	2023
Scale low-carbon heat: Key policies include mandates to reduce operational carbon emissions from new builds via the Future Homes Standard, as well as incentives such as the Energy Company Obligation funding mentioned against the “energy efficiency” driver. In autumn 2023, the UK Government announced it would delay the phase-out date for oil and LPG boilers from 2026 to 2035 and included an exemption for 20% of homes from the boiler phase-out mandate.			
Energy efficiency: The UK Government’s 2021 Homes and Buildings Strategy outlines a broad ambition for as many homes as possible to be EPC C by 2035. Additional key policies against this driver centre around incentivising the retrofit of low-income residential properties as a priority, through schemes such as the long-running Energy Company Obligation scheme whereby energy companies offer households considered to be in ‘fuel poverty’ funding support to retrofit their homes. In September 2023, the UK Government altered its mandate for landlords to upgrade the EPC rating of their privately rented properties to C by 2025 for new tenancies and 2028 for existing tenancies.			
Residential low-carbon heat networks: The UK Government has extended funding for heat networks through the Green Heat Network Fund (GHNF) and the Heat Network Efficiency Scheme until 2028, where the latter scheme provides funding to public, private and third sector applicants in England and Wales to support improvements to existing heat networks. New projects funded through GHNF will need to use low-carbon sources, but as yet there are no clear policies to prohibit the creation of new high-carbon networks which do not draw on public funds. The UK CCC further recommends the passage of the Energy Bill that will empower Ofgem to regulate heat network zoning by 2025.			 until 2028 from 2029
Product standards and appliance efficiency: Key policies include the Energy-related Product Policy Framework, which mandates minimum efficiency standards for household appliances.			
Non-residential		2022	2023
Energy efficiency: Key policies centre around mandates to reduce operational carbon emissions from new builds e.g. the Interim Buildings Standard and provision of £1.1 billion to 302 projects to retrofit public buildings via the Public Sector Decarbonisation Scheme. The UK CCC reports that there has been some support and advice for small businesses and strengthening of the Energy Savings Opportunity Scheme (ESOS), but significant policy areas await meaningful action, including policies or programmes to support the delivery of energy efficiency measures in owner-occupied commercial buildings, along with the introduction of a performance-based policy framework in large commercial and industrial buildings.			
Low-carbon heat networks: Key policies include the heat network zoning proposal, which, if passed into law, would require large non-residential buildings to connect to a heat network within a given timeframe (10 years being the backstop), and the Heat Network Efficiency Scheme, which provides grant funding to public, private and third sector applicants in England and Wales to support improvements to existing heat networks.			
Scale low-carbon heat: The Future Buildings Standard outlines plans to mandate low carbon heat in new builds from 2025, although this is still under consultation. Additional policies supporting this driver include grants to retrofit public buildings via the Public Sector Decarbonisation Scheme and a proposal to create quotas around the manufacture of heat pumps via the Clean Heat Market Mechanism. UK CCC contends that progress depends on the Government successfully developing its Clean Heat Market Mechanism and Boiler Upgrade Scheme whose eligibility criteria would be suited for smaller commercial buildings but not large ones. The UK CCC advises that the Government should set out an approach to drive uptake of and market capacity for larger heat pumps for commercial buildings. Commercial properties use more electricity (relative to gas) than residential properties and therefore the UK Government needs to outline a clear approach to rebalance the relative costs of gas versus electricity for consumers.			

There are a number of other dependencies influencing transition to net zero for these sectors – including the maturity of the supply chain to support retrofit activity, landlord/tenant relationships, customer journey enhancements, technology development and scaling and innovation in construction processes, including the ability to consistently measure buildings’ embodied carbon. Refer to page 34 of the 2022 NatWest Group plc Climate-related Disclosures Report for further details.

2.6 Sensitivity analysis including dependence on government policies continued

Food-related sectors: policy environment

Government policy to reduce emissions in the food-related sectors primarily focuses on sectors involved in agriculture and land use measures. Agriculture subsidy reforms post-Brexit are aiming to incentivise farmers and land managers to undertake practices to reduce and sequester emissions. The devolved governments are at different stages of enacting agriculture and land use policies in their nation. There has been progress in 2023: England launched the second round of support to farmers under the Environmental Land Management Scheme, Wales passed its Agriculture Wales Act, and Scotland introduced its Agriculture and Rural Communities Scotland Bill. Northern Ireland has introduced a series of new payments, pilots and training in 2023 that is aimed at reducing emissions resulting from livestock and land management. Notably, they have launched the Carbon Benchmarking Programme that will enable farm businesses to gain an understanding of their greenhouse gas emissions and use this information to identify where improvements can be made.

Update against key policy drivers to support emission reductions	UK CCC (June 2023) credibility assessment	
Agriculture	2022	2023
Low carbon farming: While anticipated in the Scotland Bill, England and Wales have provided incentives to farmers to achieve environmental measures for soil, grassland, horticultural and integrated pest management. Agricultural machinery: England, Scotland and Wales provide capital grants to support farmers in adopting more efficient equipment, improvements in animal welfare, and farming advisory. However, adopting these changes is not mandatory. The UK CCC indicates that uptake of critical farming equipment, such as anaerobic digesters for livestock, is significantly off-track.		
Diet change and food waste: The Government has introduced eco-labelling on Foods. As part of the 25 Year Environmental Plan, the UK Government is working towards no food waste entering landfill by 2030. Further changes may be required, in line with UK CCC policy recommendations.		
Land release measures: In order to be in-line with the BNZ pathway, the UK CCC has proposed that around one-fifth of agricultural land be released by 2050 for actions that reduce emissions and sequester carbon. However, drivers for land release (such as shifting diets and reducing food waste) and schemes for habitat restoration on farmland (as seen in land use policies) do not provide a strong signal for farmers to enable these measures, with UK CCC indicators suggestive of progress being off-track.		
Land use, land use change and forestry	2022	2023
Peatland restoration, afforestation and management of existing woodlands (e.g. broadleaf management): Funding is in place to support peatland restoration and afforestation activities to create new woodlands, but according to the UK CCC, both are significantly off-track to meet each devolved nation's commitments and the BNZ pathway. The UK CCC has assessed that incentives for the management of existing woodlands in England, Scotland and Wales are slightly off-track.		
Energy crops: The UK Government released its Biomass Strategy in 2023 to coordinate across government departments to assess how biomass should be sourced and used across the economy. The UK CCC indicates it is still too early to confirm whether policies are sufficient to meet demand for energy crops in a sustainable manner.		
Agro-forestry measures: Incentives for hedgerow and woodland creation on farms exist in England, Scotland and Wales. However, new woodland creation is considered to be significantly off-track against the UK CCC BNZ pathway.		

There are a number of other dependencies influencing transition to net zero for these sectors, most notably: customer awareness, cost of living challenges faced by customers and farmers, and technology developments. Refer to page 42 of the 2022 NatWest Group plc Climate-related Disclosures Report for further details.

Key: UK CCC (June 2023) credibility assessment. Policy delay estimated by NatWest Group.

Credible policies:
No assumed delay

Some risk:
Estimated 3-year delay

Significant risk:
Estimated 5-year delay

Insufficient plans:
Estimated 10-year delay

2.6 Sensitivity analysis including dependence on government policies continued

Mobility-related sectors: policy environment

Surface transport remains the UK’s highest-emitting sector, with a UK CCC policy assessment of “some risks” associated with delivery. While recent policy progress has been slower than expected, there was tangible progress in 2023 with confirmation that the Zero Emission Vehicle (ZEV) mandate was passed into legislation. The ZEV mandate will ensure that 80% of new cars sold by 2030 will be zero-emission. Still, industry could face headwinds to demand following recent announcements to delay the fossil-fuelled car and van phase-out date from 2030 to 2035. Nevertheless, the market share of electric cars continues to increase, and surface transport manufacturers are now committed to offering electric options across their product ranges. There remains an opportunity to build on this progress and develop regulations and policies further.

Update against key policies to support emission reductions		UK CCC (June 2023) credibility assessment	
Surface transport, land transport and logistics		2022	2023
<p>ZEV uptake and charge point infrastructure: The UK Government announced in September 2023 that the fossil-fuelled car and van phase-out date would be delayed from 2030 to 2035. With Britishvolt going into administration in 2023, there remains interest from other investors to invest in alternative UK giga-factories to support this activity. Investment in charge point infrastructure is progressing under the Local Electric Vehicle Infrastructure (LEVI) scheme and On-Street Residential Chargepoint Scheme (ORCS), but the UK CCC indicates it is too early to state whether the roll-out is at the required pace. The UK Government is using location data to boost local EV rapid charger roll-outs. The 2022 Future of Freight plan is the UK Government’s long-term vision for the UK freight sector that will promote modal shifts. The plan reiterates the Government’s commitment to support rail freight with an intention to facilitate the launch of new international rail freight routes by developing a bespoke inland customs clearance model for rail freight terminals. The UK CCC states battery electric vehicles (BEV) car sales are on-track, while related van sales are significantly off-track.</p>			
<p>Reducing car travel: The Prime Minister announced in September 2023 that the UK Government will no longer move ahead with proposals for carpooling. However, ways to reduce the demand for car use could still be explored. A new government code of practice for Mobility as a service (Maas) was published in August 2023, which seeks to explore innovative ways to integrate and analyse modal options for consumers. The UK Government’s ‘Bus Back Better’ strategy represents a longer-term strategy to provide better bus services in England outside of London. Scotland’s National Transport strategy remains in place, with its aim to ensure access to affordable, accessible, and sustainable transport.</p>			
<p>Conventional vehicle efficiency: The now-confirmed ZEV mandate, will ensure that 80% of new cars sold by 2030 will be zero-emission. UK Government Renewable Transport Fuel Obligation (RTFO) focuses on the decarbonisation of transport and extends to cover hydrogen-based fuels.</p>			
Aviation and shipping		2022	2023
<p>Demand management: For aviation, the Prime Minister’s September 2023 announcement confirmed the UK Government’s removal of aviation tax on domestic flights. The Jet Zero Strategy commits to avoiding unnecessary emissions from ‘ghost flights’ that are empty or near empty when departing the UK. There is currently no viable alternative to long-haul airline travel or air freight though there is limited potential to redirect short-haul domestic passengers where suitable infrastructure is available. For shipping, demand reduction would require global cooperation. Domestic maritime will be added to the UK Emission Trading Scheme (ETS) from 2026 and will be a cap-and-trade scheme to incentivise investment in decarbonisation.</p>		Aviation 	Shipping
<p>Efficiency, hybrids and electrification: For aviation, the Jet Zero Strategy has a commitment to make the UK aviation sector net zero by 2050. Considerable research and development would be required to achieve Jet Zero Strategy’s pathway of 2% annual fuel efficiency improvements from historic levels of 1.5%. The second Sustainable Aviation Fuel (SAF) mandate consultation is scoping a voluntary or mandatory mechanism for airlines to avoid tankering, a practice where an aircraft carries more fuel than required to reduce or avoid refuelling at the destination airport. Through the existing Aerospace Technology Institute Programme, UK Government and industry are investing £113 million in new hydrogen and all-electric flight technologies. There is an ambitious goal for English Airport Operations to be zero emission by 2040. For shipping, there is a phased roll-out of clean maritime clusters, linked to the Clean Maritime Plan released in 2023 to provide a route map for how the maritime sector will reach net zero by 2050.</p>		Aviation 	Shipping
<p>SAF/low-carbon fuels: The Government’s Low-Carbon Fuels Strategy should align with the UK Biomass Strategy to ensure the right funding and feedstock supply is in place to meet Government ambitions for SAF. Sustainable fuel alternatives are beginning to emerge but will require patient and risk-tolerant capital to achieve necessary scale. For aviation, the Government has committed to SAF contributing 10% of aviation fuel by 2030, however this strategy relies on nascent technology, and availability of UK and global biomass feedstock. There is funding to support development of SAF plants and to develop a UK SAF Clearing House at Sheffield University’s Energy Institute, a central hub to coordinate the testing and certification of new SAF technology. For shipping, the Government’s Carbon Budget Delivery Plan’s deployment assumptions state that low-carbon fuels are to expand to 42% of total domestic shipping fuel use by 2035, though policy is unclear whether this will be feasible. Shipping: The Department for Transport launched UK-Shore, which aims to make maritime greener and explore new technologies through the Clean Maritime Demonstration Competition. A refreshed UK Clean Maritime Plan released in 2023 will help tackle emissions in shipping.</p>		Aviation 	Shipping

There are a number of other dependencies influencing transition to net zero for these sectors, most notably: Customer behaviour/consumer demand, technological developments and development of Sustainable Aviation Fuel. Refer to page 36 of the 2022 NatWest Group plc Climate-related Disclosures Report for further details.





Key: UK CCC (June 2023) credibility assessment.

- Credible policies:**
Policy delay estimated by NatWest Group
- Some risk:**
Estimated 3-year delay
- Significant risk:**
Estimated 5-year delay
- Insufficient plans:**
Estimated 10-year delay

2.6 Sensitivity analysis including dependence on government policies continued

Energy-related sectors: policy environment

Energy supply decarbonisation is central to enabling the transition of other sectors, and electrification remains a key part of the transition. The UK Government has committed to decarbonising electricity supply by 2035, which is needed to meet the UK CCC’s BNZ pathway. The UK CCC’s Progress Report, published in June 2023, has rated policies intended to achieve the UK’s 2035 target for this sector as having “some risks”, a change from their 2022 position of “credible plans”. In 2023, the UK CCC changed their assessment of policies in the fuel supply sector, including oil and gas, reflecting the UK Government’s decision to approve a new coal mine, new licensing rounds for oil and gas production and new risks identified around the UK Government’s level of hydrogen ambition.

Update against key policies to support emission reductions		UK CCC (June 2023) credibility assessment	
Electricity generation		2022	2023
<p>Overall electricity supply: The UK Government’s commitment for the electricity sector to be decarbonised by 2035 is contingent on renewables, nuclear and flexible generation and storage fulfilling 95% of electricity generation demand. The UK CCC recommends that a comprehensive long-term strategy is required for this shift in electricity generation, as elaborated below.</p>			
<p>Renewables (70% of 2035 electricity generation): Ambitious targets have been set for increasing renewables capacity, including offshore wind being four times the current levels by 2030, and solar five times the current levels by 2035. The amendment to the UK CCC’s assessment reflects increased uncertainty over timescales, increasing risks around network connections, and lastly, an unwillingness to increase the strike price for offshore wind auctions that led to the failure to attract bids for the fifth auction.</p>			
<p>Nuclear (15% of 2035 electricity generation): The Skidmore Review recommended the UK Government set out a clear roadmap for nuclear deployment, with interim targets towards 2050. Although the UK Government has approved Sizewell C, there is still a need to continue to develop plans and ensure there is sufficient funding to deliver the deployment roadmap.</p>			
<p>Flexible low-carbon generation and storage (10% of 2035 electricity generation): The UK CCC’s assessment of “some risk” reflects the ambiguity of the UK Government’s view on the scale of flexible low-carbon capacity required. UK CCC states that policy needs to signal that there is no long-term role for unabated gas or biomass plants in a decarbonised electricity system.</p>			
<p>Flexible demand: With the launch of the Demand Flexibility Service (DFS), consumers are rewarded for voluntarily reducing electricity consumption during peak demand, saving 33.3 GWh of electricity demand over winter 2022-2023. The National Grid ESO’s updated Demand Flexibility Service will run between November 2023 and March 2024, and will pay a minimum of £3/kWh as a demand reduction incentive.</p>			
<p>Networks: Commitments in the ‘Powering Up Britain Energy Security Plan’ show progress towards improving the whole grid network. However there are delivery risks associated with these plans, particularly around planning and access to network connections. While the UK CCC welcomed the high-level commitment from the Prime Minister on 20 September 2023 to a spatial energy infrastructure plan and to changing the process for electricity grid connections, there was a lack of further details to mitigate delivery risks.</p>			
Oil and gas		2022	2023
<p>Overall UK CCC assessment and summary: The UK CCC changed their assessment of the fuel supply sector in 2023, reflecting the Government’s decision to approve a new deep coal mine, new licensing rounds for oil and gas production and new risks identified around the UK Government’s level of hydrogen ambition.</p>			

There are a number of other dependencies influencing transition to net zero for these sectors, most notably: Carbon Capture, Utilisation and Storage (CCUS), which is deemed to be necessary for the UK to reach its net-zero goals, and customer behavioural changes. Refer to page 40 of the 2022 NatWest Group plc Climate-related Disclosures Report for further details.

- Key: UK CCC (June 2023) credibility assessment.**
- **Credible policies:**
No assumed delay
 - **Some risk:**
Estimated 3-year delay
 - **Significant risk:**
Estimated 5-year delay
 - **Insufficient plans:**
Estimated 10-year delay

2.7 Operational value chain Climate transition plan: progress update

During 2023, we focused on activities with the potential to contribute towards our ambition to reduce our direct own operations by 50% by 2025, against a 2019 baseline, as well as making progress against our SBTi validated 2030 targets. We achieved a 54% reduction against a 2019 baseline in our Scope 1 and Scope 2 location-based emissions and will continue to will continue to pursue further decarbonisation towards our 2050 net-zero ambition as we implement and refine our Climate transition plan. Activities with the potential to contribute towards the achievement of our own operational value chain⁽¹⁾ 2050 net-zero ambition⁽²⁾ are shown in the table below, split into our areas of impact: our emissions in Scope 1 and location-based Scope 2, Scope 3 emissions and investing in further impacts⁽³⁾. All activity continues to be supported by a focus on continuous data improvement.

Our ambition is to be net zero for our operational value chain⁽¹⁾ by 2050⁽²⁾

Key activities

2023 highlights (refer to pages 42 – 44 for further detail)

50% reduction
Scope 1 and
location-based
Scope 2 tCO₂e
2019 – 2030

- Decarbonise our buildings while increasing their energy efficiency and reducing our energy consumption.
- Optimise our portfolio and increase resilience to climate change.
- Continue to pursue further options for decarbonisation.

We achieved a 54% reduction in emissions between 2019 and 2023

We opened our new office in Spinningfields, Manchester, which has been awarded the RICS SKA gold accreditation, achieving the highest level of sustainable fit-out using the rating method, with an EPC rating improvement from D to B. Incorporating technology and innovation into the design, including removing all gas operations, has enabled Spinningfields to be our new flagship building for sustainability. We have also invested across the portfolio in technologies such as building management systems and LED lighting, driving further reductions and improving EPC ratings.

50% reduction
Scope 3 tCO₂e
2019 – 2030

- Reduce the impact of our supply chain, increase supplier-specific data and engagement with suppliers.
- Increase sustainable travel by honouring EV commitments on chargers and fleet electrification as well as halving our 2019 travel emissions.
- Transition to a circular economy reducing waste and diverting it from landfill and incineration where possible.

We achieved a 26% reduction in Scope 3 operational value chain emissions between 2019 and 2023

Through our Supplier Decarbonisation Programme we completed a pilot with a small sample of suppliers. Supply chain services also continued to work with a third party to evaluate our supply chain, using evidence-based assessments of sustainability performance to understand the most effective way to meet our goals and embed a climate focus across our supply chain. Our Supplier Charter has been updated to provide clear guidance on what we expect from our suppliers on ESG matters when working with us.

Investing in
further impacts

- Invest beyond our value chain⁽³⁾ in nature by maintaining a balanced portfolio, procuring high-quality carbon credits to invest beyond our value chain while reviewing biodiversity opportunities.
- Continue to consume 100% renewable electricity from 2023 and add additional renewable sources to the grid.

We retired 120,000 nature-based carbon removal credits⁽⁴⁾

We have also started to take action in order to decrease our reliance on the carbon credit market by funding our own projects. At the end of 2023 we invested in a woodland creation on the Traquair House estate in Scotland, which will supply approximately 66,000 Woodland Carbon Units to be added to our blended portfolio.

The delivery of our own operations climate ambitions and associated Climate transition plan is dependent upon a range of factors including:

Voluntary decarbonisation of organisations within our supply chain.

Availability and cost of renewable electricity certificates as well as carbon credits.

Availability and cost of technology such as degassed heating and the supply chains required to support delivery.

(1) Our operational value chain captures greenhouse gas emissions Scopes 1, 2 and 3 (Categories 1-14, excluding Categories 8, 10, 14). Refer to section 5.2 and 5.3 for detail of Scope 3 Category 15 (financed emissions).

(2) For our own operations, net zero means aiming to reduce our operational value chain⁽¹⁾ by a minimum 90% reduction by 2050 against a 2019 baseline. We plan to neutralise the residual 10% using carbon credits in line with 'SBTi Corporate Net Zero Standard' released in October 2021.

(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 absolute emission reductions of 50% Scope 1+2, 50% Scope 3 and 90% by 2050 are not achieved through the use of carbon credits.

(4) The project is 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 generates carbon removal credits from increased sequestration of carbon in the soil through sustainable grazing patterns in partnership with communities in grassland areas. The project measures impact, estimates ecological leakage and assesses risk. The project adheres to VCS Standard 4.3, Section 3.18 Safeguards requirements and methodology VM0032.

2.7 Operational value chain continued

Climate transition plan: progress update

The charts show our direct own operational⁽¹⁾ emissions by category during 2023⁽²⁾, including our upstream and downstream operational value chain emissions.

NatWest Group uses the Greenhouse Gas Protocol to measure emissions across Scopes 1, 2 and 3, with the latter split into 15 categories. For a breakdown of these categories within our reporting scope, as well as a description of upstream reporting limitations, see page 67 of our 2021 Climate-Related Disclosure Report and downstream reporting limitation on page 74 of our 2022 Climate-Related Disclosure Report.

Our own operational progress

- Supporting delivery of our RE100 commitment, our 2023 direct own operations market-based emissions of 79,417 tCO₂e include emission reductions from the use of green electricity covering 100% of our consumption, but in accordance with the Greenhouse Gas Protocol it does not include emissions reduction from the use of carbon credits.
- Our location-based value does not include the emission reductions from the use of renewable electricity purchased. Our direct own operations emissions are 131,100 tCO₂e and have reduced by 47%, compared with the 2019 baseline, supporting delivery of our 2025 and 2030 ambitions.

Energy reduction initiatives relating to movements in Scopes 1 and 2 emissions

Energy saving: Between 2022 and 2023 we reduced our energy consumption by 38 GWh, driven by portfolio transformation completed during the reporting year and projects including those detailed below:

- Building Management System (BMS) software:** Installed in all our large and medium office buildings to optimise the control of our energy-using systems such as heating, cooling and air handling.
- Data centres:** Building management initiatives have been delivered across the four strategic UK data centres' including the installation of energy efficient chillers to cool the data centres' halls and optimisation of the temperatures. In addition, a multi-year upgrade programme to our Edinburgh data centre network has completed end-of-life hardware decommissioning.
- LED lighting:** As part of a multi-year LED investment programme, we upgraded 65 of our branches in 2023. The aim is to roll out across a further 200 of our branches, delivering c.8 GWh reduction in electricity use. Installation of low-energy LED lighting in our data centres has provided savings and we also made progress in overseas offices with an LED lighting exchange saving 10% energy at our Poland office compared with the same period last year.

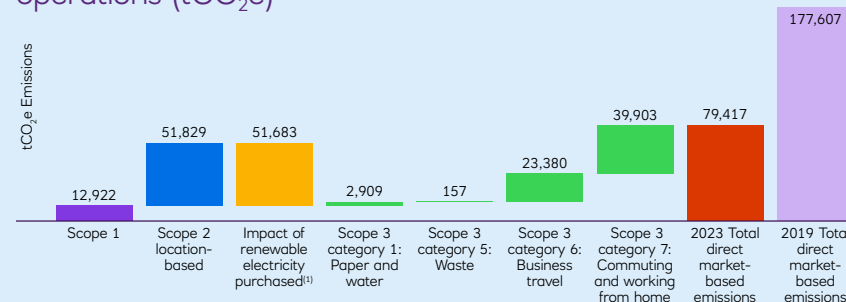
Emissions movements relating to Scope 3 emissions (excluding financed emissions)

- Supply Chain:** In 2023, we began our supplier data improvement journey for our emissions estimates, transitioning from a fully spend-based approach to a hybrid approach. This uses supplier-specific data, where it is available, for our top 80% of spend, topping-up with spend-based data where more accurate disclosed data is not available. This means that our 2023 supplier footprint is now 18% supplier-specific data. As a result, our category 1, 2 and 4 emissions for 2019 have been re-baselined in line with recommended best practice as the changes exceeded our 5% materiality threshold, driving a 50% reduction in 2019 emissions from those reported historically.
- Technology:** A cloud-hosted desktop service was enabled for 34,000 colleagues that allows supporting infrastructure to be dynamically scaled up and down throughout the day based on real-time demand. Further, rightsizing our property portfolio has enabled the decommissioning of a segment of our branch and head office network infrastructure achieving savings of 680 tCO₂e in 2023.

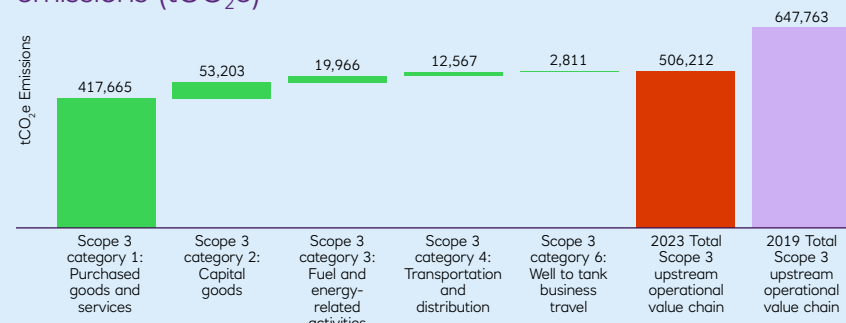
Refer to page 59 of the 2023 NatWest Group plc Annual Report and Accounts for our Streamlined Energy and Carbon Reporting (SECR) disclosures.

Data improvement programmes to review our preliminary estimations may cause these figures to be updated in the future. 2022 CDP data was used for 2023 emissions reporting due to the Q1 2024 release date of 2023 CDP responses. Supplier data reported for 2020 – 2022 uses 100% spend-based approach and should therefore not be used to compare against 2019 or 2023.

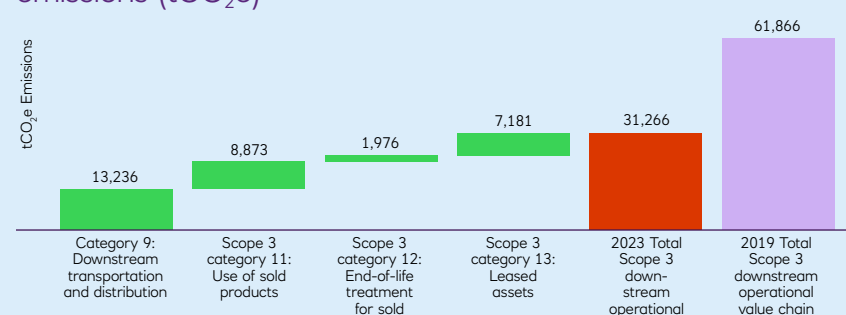
2023 Breakdown of direct emissions from our own operations (tCO₂e)^(*)



2023 Breakdown of upstream operational value chain emissions (tCO₂e)^(*)



2023 Breakdown of downstream operational value chain emissions (tCO₂e)^(*)



(*) Within the scope of EY assurance. Refer to page 6.

Footnotes for this page can be found on page 43.

2.7 Operational value chain continued

This table presents an update to our climate ambitions related to our direct own operational footprint⁽¹⁾. Direct own operations emissions reduced by 47% between 2019 and 2023 due to early achievement of our RE100, EP100 and paper targets, as well as a reduction in business travel.

Own operations key performance indicators	Target Year	Baseline Year	% Target	2023 ⁽²⁾	2022
Carbon and Energy					
(RE100) ⁽³⁾ 100% renewable electricity for global operations (% global electricity)	2025	N/A	100%	100%	98%
50% emissions reduction from direct own operations (% total direct own operation emissions)	2025	2019	94%	47%	46%
(EP100) 40% energy productivity improvement (% total energy)	2025	2015	100%	84%	54%
Electric Vehicles (EV100)					
100% of our fleet vehicles electric (% of fleet converted to electric) ⁽⁴⁾	2025	N/A	33%	33%	3%
Install EV chargers in 15% of large office spaces across our portfolio (% large office spaces with charging infrastructure) ⁽⁴⁾	2025	N/A	87%	13%	13%
Resource Use					
Maintain zero waste to landfill in UK & Republic of Ireland (% waste diverted from landfill)	2025	2019	99.9%	99.9%	99.9%
Reduce paper consumption 70% (% paper reduced)	2025	2015	100%	71%	66%

- **RE100:** In 2023 we increased our consumption of renewable electricity to 100% across our global operations, achieving our RE100 commitment a year in advance. We accomplished this through green tariffs and purchasing Renewable Electricity Certificates (RECs) for our landlord-supplied properties, where we are unable to specify a requirement for renewable electricity. In January 2024, NatWest Group's first corporate power purchase agreement (cPPA) will start. The Porth Wen solar farm in Anglesey, North Wales, will provide the grid with an anticipated 68 GWh of low-carbon electricity annually. A roof-top solar PV array at Coutts' office at 440 Strand, London will also be completed in 2024 and will generate over 140,000 kWh annually.
- **EP100:** Energy productivity has improved by 84% since 2015 due to the implementation of innovative energy practices throughout our buildings, which has reduced energy consumption. This has resulted in an improvement in energy intensity on a FTE/GWh basis.
- **EV100:** As part of our ongoing EV100 commitments, we installed electric vehicle charging points in 13%⁽³⁾ of our large office car park spaces across our UK portfolio and converted 33% of our owned and operated fleet to electric vehicles. Outside our commitments, build commenced in 2023 for two electric mobile banks, with charging infrastructure in place to test long-term effectiveness of the vehicles on selected routes in Q1 2024. We also expanded our focus to overseas offices, with EV chargers available to staff at two of our large India offices to help support electrification of our taxi fleet.
- **Waste:** We have reduced waste by 41% since 2019. For customers using our cash operations, plastic usage is tracked, highlighting opportunities to switch to more sustainable alternatives. Paper consumption has decreased by 71% from our 2015 baseline, with a reduction

- of 3.9 million envelopes and 56 million sheets of paper being sent to our customers. Our catering supplier plays a key role in reducing single use plastic on our sites and the successful transition to reusable alternatives for catering at our Thanet Grange and new Manchester Spinningfields offices provides the model for roll-out to other sites.
- **Design:** With a continued focus on delivering sustainable, quality assured fit-outs across all our buildings we have furthered our progress by achieving two gold and one silver Royal Institute of Chartered Surveyors (RICS) SKA accreditations in office fit outs, in addition to one gold and one silver in branch refurbishments. This was achieved by embedding the re-use first strategy, helping us to achieve our decarbonisation and waste reduction goals, as it looks to reuse as much furniture, signage and fit-out components as possible. In 2023 our strategy led to 69,000 assets being re-used and 2.3 tonnes of waste avoided from landfill. Further, through innovative and sustainable design we have improved the EPC rating of a number of buildings, including our Preston hub, a Grade II Listed heritage building, from an EPC rating of E to B.
- **Carbon Credits:** In 2023, we retired 120,000 nature-based carbon removal credits. The project is 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. The project generates carbon removal credits from increased sequestration of carbon in the soil through sustainable grazing patterns in partnership with communities in grassland areas. The project measures impact using the Tool for the Demonstration and Assessment of Additionality in VCS's Agriculture, Forestry and Other Land Use project activities, estimates project ecological leakage and assesses risk using monitoring and compensation⁽⁵⁾.

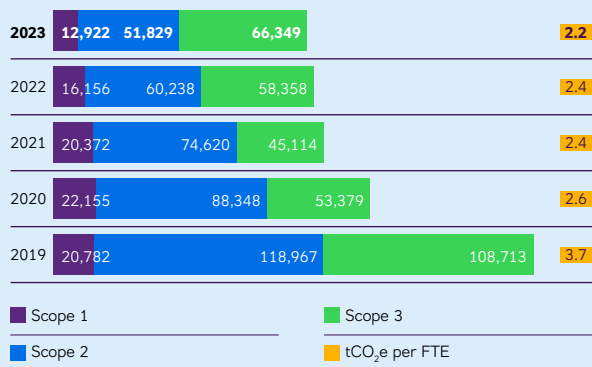
The historic values reported in the table above and data on page 44 may be updated from values we reported in 2023. This is due to updated bills, data provision and extrapolations. Further, future data is subject to change following any significant change to our business size and scope, as baseline recalculation may result in differing emissions reductions.

- (1) NatWest Group defines direct own operations as our Scope 1, Scope 2 location-based 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. Scope 3 category 15 financed emissions are covered in section 5.2 and 5.3 of this report.
- (2) Our own operational emissions reporting year runs from the 1 October 2022 to 30 September 2023.
- (3) Using green tariffs and purchased renewable electricity certificates.
- (4) Progress against our chargers installed has remained at 13% 2022 – 2023. We have access to additional chargers in our offices this year compared to last year but due to property transformations this is not reflected in this year's figure, as a result, shows no movement.
- (5) The project adheres to VCS Standard 4.3, Section 3.18 Safeguards requirements and methodology VM0032.

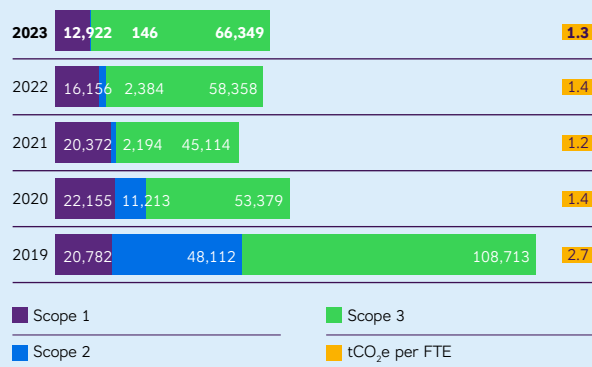
2.7 Operational value chain continued

These charts present the 2019 – 2023 trends related to NatWest Group’s own direct operational GHG emissions, energy consumption, paper consumption, water consumption and waste generated.

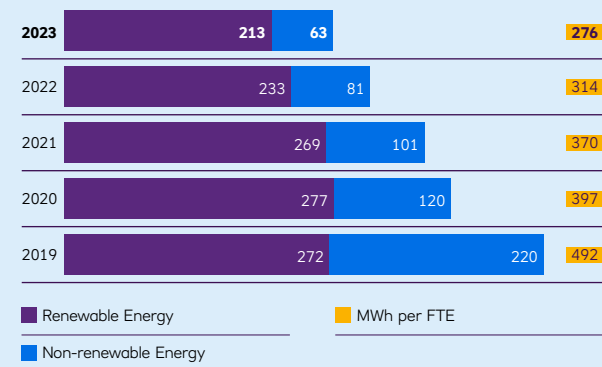
Location-based GHG emissions⁽¹⁾ (tCO₂e)



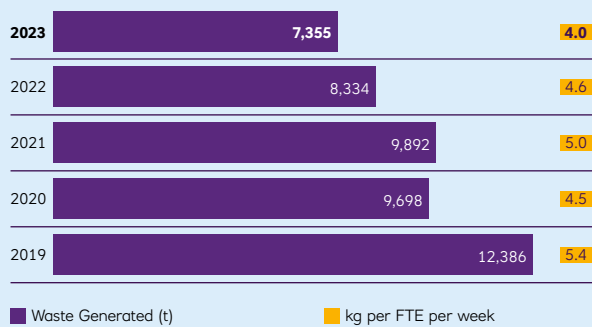
Market-based GHG emissions (tCO₂e)⁽²⁾



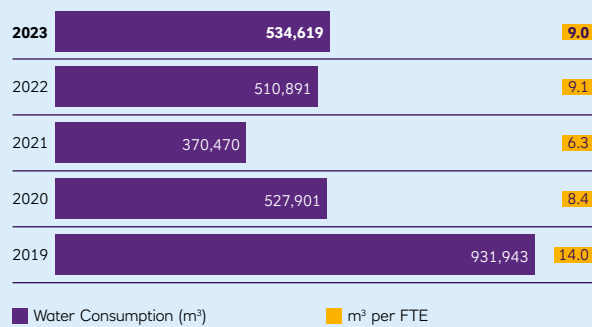
Energy consumption (GWh)



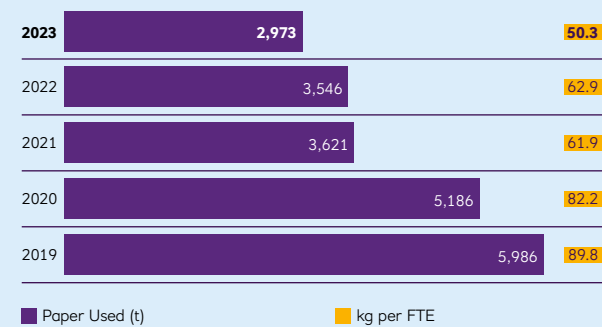
Waste generated (t)⁽³⁾



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 (SECR) disclosure, included on page 59 of the NatWest Group plc 2023 Annual Report and Accounts, 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 (2023 6,118t, 2022 6,956t, 2021 8,472t, 2020 7,217t, 2019 9,238t), Incineration (2023 967t, 2022 1,133t, 2021 1,170t, 2020 2,012t, 2019 2,757t), Reused (2023 263, 2022 235t, 2021 241t, 2020 461t, 2019 349t), Landfilled (2023 7t, 2022 10t, 2021 9t, 2020 7t, 2019 42t).



Serving our customers every day

Risk management and scenario analysis

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

- 3.1 Integrating climate-related risks into NatWest Group's risk management policies and processes
- 3.2 Our processes for identifying and assessing climate-related risk
- 3.3 Managing climate-related risks

3.1 Integrating climate-related risks into NatWest Group’s risk management policies and 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.

Climate risk has been included in the NatWest Group risk directory since 2021, alongside an iterative multi-year approach to mature capabilities.

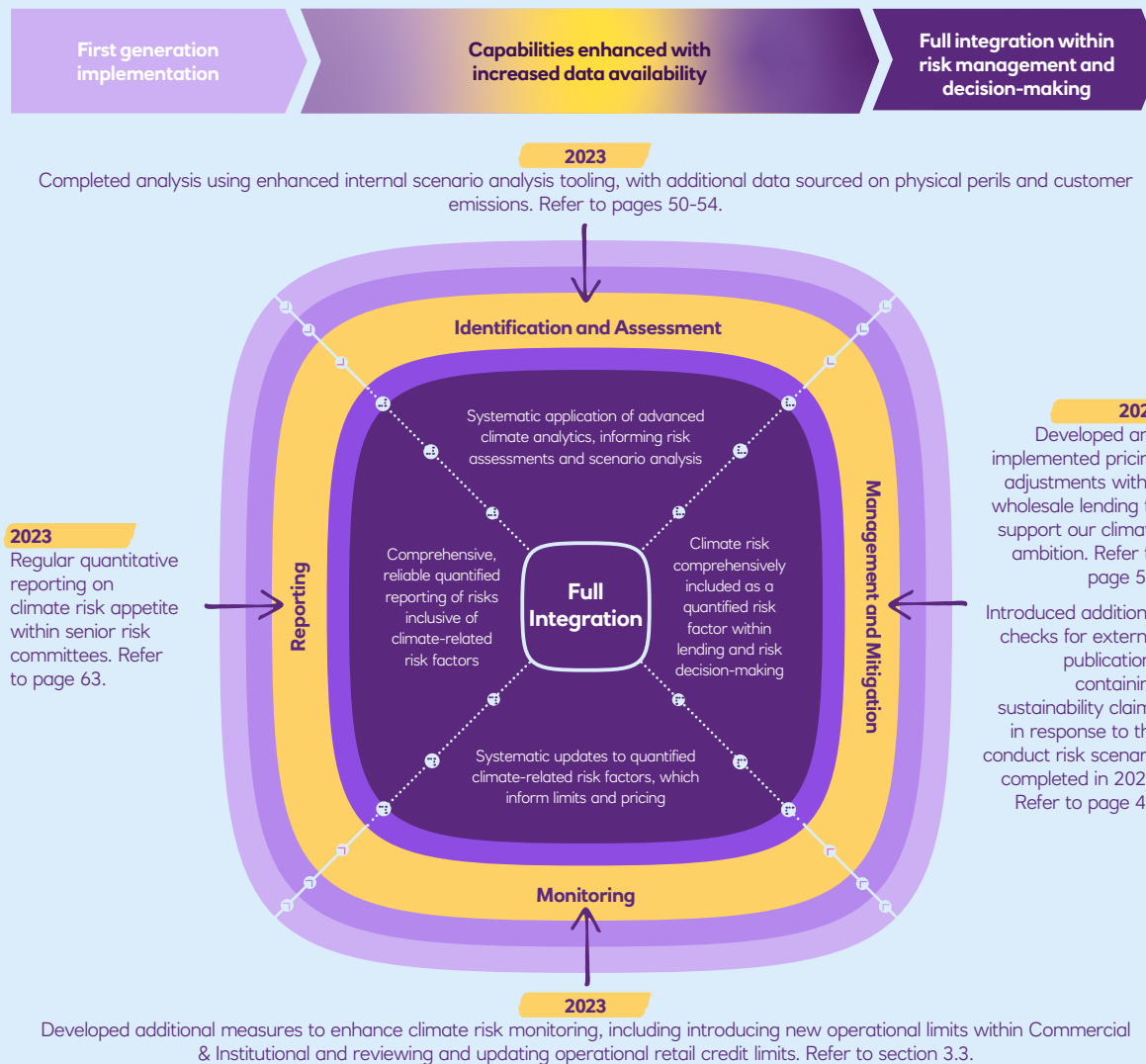
During 2023, the Board and Board Risk Committee received updates at every meeting on performance against climate risk appetite through the Risk Management Report. Risk appetite has been determined on a quantitative basis and seeks to avoid financed emissions on lending exposures and own operations, outside of set tolerance levels. These tolerance levels are set in line with the NatWest Group Enterprise-wide risk management framework (EWRMF). Towards the end of 2023, tolerance levels were refreshed to reflect updated Climate transition plan forecasts, and the measures consider both drawn and undrawn exposures. These updates took effect in January 2024.

The diagram on this page shows that to achieve our ambition of full integration, further progress is required. Challenges remain with the availability of accurate, comprehensive, consistent, comparable, reliable and verifiable data, and the subsequent use of that data within risk decisions. For further details, refer to page 54.

We have continued to develop strategic tools which, when fully operational, are expected to provide enhanced capabilities and will support effective management of the potential risks. These include CDF tools for wholesale lending, which will be rolled out on a test-and-learn basis in early 2024, and a Net Zero Investment Framework supporting fund selection for assets under management. For further details refer to pages 32 and 77.

In January 2024, the scope of the climate risk framework, including the risk definition and risk policy, was extended to recognise nature-related risks beyond climate change. For further details, refer to page 47.

The image below represents our journey to fully embed climate risk management capabilities within business activities and processes, highlighting the key capabilities enhanced during 2023.



3.1 Integrating climate-related risks into NatWest Group’s risk management policies and processes continued



NatWest Group continues to evolve its approach to risk management to recognise nature-related risk.

In 2021, we classified ‘biodiversity and nature loss’ as a formal emerging risk for NatWest Group, recognising the potential threats from nature-related risks. These include, but are not limited to, biodiversity loss, water scarcity and deforestation. It is recognised that these have potential to cause or stress other financial and non-financial risks, including climate risk.

During 2023, NatWest Group expanded the scope of climate risk within its EWRMF to include nature-related risks. It is recognised that these nature-related risks have the potential to increase the likelihood and/or magnitude of principal risks within the NatWest Group Risk Directory. Refer to the [2023 NatWest Group Plc Annual Report and Accounts](#). NatWest Group is therefore focused on developing and subsequently maturing its underlying capabilities, to effectively manage the potential risks, with implementation of the expanded framework during 2024.

 Details of the NatWest Group ESE policies can be found on our website.

As our capabilities mature, we plan for the effective management of climate risk through existing policies. These policies are captured within the NatWest Group EWRMF. The EWRMF sets out the requirements on how risk appetite is implemented through risk policies and standards and translated into operational procedures. For further details, refer to [2023 NatWest Group Plc Annual Report and Accounts](#). Below are some examples of how climate risk is managed within these policies. Further climate risk maturity is required to ensure policies adequately mitigate potential risks, refer to page 46.

Identification and assessment

Applying horizon scanning in line with the regulatory **compliance risk policy** to identify future climate-related regulatory changes, for example, UK Sustainability Disclosure Requirements and investment labels.

Applying climate-related scenarios as required by the **capital risk policy**. For example, Disruptive Policy Response scenario included as part of one of the ICAAP stress scenarios, to identify where capital adequacy could be impacted by climate-related risk.

Assessing potential risks caused by climate-related factors, as required by the **operational risk policy**. For example, assessing the impact of our colleagues being unable to access our buildings due to severe weather events.

Management and mitigation

Applying climate-informed lending limits. For example, regarding secured property assets, for commercial real estate and buy-to-let customers, which do not meet minimum energy-efficiency standards, determined under the **credit risk policy**.

Applying climate-related criteria within customer relationships. For example, preventing exposure to certain oil and gas activities, set through the **reputational risk policy**.

Applying control requirements. For example, operating adequate recovery plans in case of outages of key buildings or suppliers, required by the **operational risk policy**.

Monitoring and reporting

Monitoring and reporting all principal risks against their agreed appetite in line with the EWRMF.

3.2 Our processes for identifying and assessing climate-related risk

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

NatWest Group uses its EWRMF to identify the principal risks which could impact the organisation. 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.

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 arise 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 will arise should stakeholders consider our climate risk and nature management practises and disclosures insufficient and responsible for, or attributable to, stakeholder losses.



Liability risks

During 2023, we reviewed our prior assessment of the relative significance of climate-related risk 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, transition and liability climate-related risk as a causal factor to other principal risks.

Climate-related risks 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 how climate-related causes can potentially impact these principal risks, and how they are subsequently managed in line with the NatWest Group EWRMF, can be found on page 49.

The impact of climate-related risk as a causal factor to other principal risks continues to be reassessed and managed through the annual refresh of the EWRMF and its individual components.

Climate change and nature are also considered as part of NatWest Group's top and emerging threats framework. For further details, refer to the risk overview section of the [2023 NatWest Group Plc Annual Report and Accounts](#). During 2023, NatWest Group has begun exploring approaches which can be used to assess the potential materiality of nature-related risk. This work will continue through 2024 and beyond.

Our climate risk policy and defined maturity standards were reviewed during 2023 to ensure that they continue to accurately reflect the risk management principles which NatWest Group is aiming to achieve to manage climate-related risk effectively.

In line with our policy and prior disclosures, NatWest Group continues to seek to effectively identify and assess the potential size and scope of climate-related risks through three approaches, which are covered in detail throughout this section:

- 1. Scenario analysis**
- 2. Portfolio level assessment**
- 3. Transaction level assessment.**



(1) Definitions of principal risks can be found in risk and capital management section of the [2023 Natwest Group Plc Annual Report and Accounts](#).

3.2 Our processes for identifying and assessing climate-related risk continued

This table highlights those risks assessed as relatively significant, and enhancements made to frameworks and processes in response. Climate risk maturity, referred to on page 46, adds context on progress to date with further maturity required to adequately assess and manage climate-related risks. Scenario analysis has been used to assess climate-related risk impacts on the following principal risks: credit, market, liquidity, operational, pension and conduct, refer to pages 50-54. While climate change has the potential to pose significant risks, it also offers NatWest Group opportunities to support customers. For details of our climate-related opportunities, refer to page 16 of this report.



All principal risks in the table below have been identified as potentially impacted by climate risk, over short, medium and long-term time horizons.

Climate impact on principal risk	Climate drivers	How climate-related risk factors are identified, assessed and managed (enhancements in 2023 are in bold)
<p>Credit risk</p> <p>Adverse impact upon future credit worthiness of customers due to climate change risk factors impacting asset valuation, income, and costs.</p>		<ul style="list-style-type: none"> Identifying portfolio segments, sectors and sub-sectors exposed to heightened climate-related risk, using internal and external data points including outputs of climate-related scenario analysis. Refer to pages 56 and 57. Explicit consideration of climate-related risks and opportunities within periodic sector reviews. Introducing processes to obtain relevant climate data through, for example, first generation qualitative climate risk scorecards or centrally sourced data, to support identification of customer level climate-related risks, refer to page 32. Applying climate-enhanced sector-specific Transaction Acceptance Standards within specific wholesale sectors; and residential mortgage lending limits based on climate characteristics. Inclusion of climate-related policy and technology assumptions within base-case macroeconomic scenario used to assess ECL included in IFRS9 reporting, refer to page 35. <p>Future Enhancements</p> <ul style="list-style-type: none"> Progressive utilisation of our CDF tools, which include more quantitative climate risk scorecards. Implementation will take place on a phased basis during 2024 and beyond, refer to page 32.
<p>Operational risk</p> <p>Increased likelihood, and potential impact of business disruption events, and/or those arising from new and changing policy standards.</p>		<p>Updates made to include climate reporting within the Financial Reporting standards</p> <ul style="list-style-type: none"> Conducting risk assessments using a toolkit containing climate-related risk guidance and functionality. Conducting operational resilience scenario analysis, in 2020 and 2021, covering flood and extreme heat events. Scenarios are reviewed as part of the ongoing scenario analysis exercises. Assessing operational change risk using Change Impact Assessments which include climate-related risk considerations. Conducting supplier due diligence using questionnaires with specific climate-related questions. Applying adequate resilience and recovery plans to prevent service outages, including those caused by climate factors. Ensuring application of NatWest Group’s data management control standards to sourced climate-related data.
<p>Conduct risk</p> <p>Poor customer outcomes 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.</p>		<ul style="list-style-type: none"> Introducing additional checks for external publications containing sustainability claims, through a dedicated climate advisory group, in response to conducting non-financial risk scenario analysis, relating to greenwashing, to identify climate-related risk impacts – refer to page 62 of NatWest Group’s 2022 Climate-related Disclosures Report. Reviewing and applying product flaw controls and regulatory requirements to align products with strategic objectives, address customer needs, and substantiate any climate-related product claims.
<p>Reputational risk</p> <p>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.</p>		<ul style="list-style-type: none"> Reviewing and updating ESE risk acceptance criteria, where applicable, for identified sectors with increased climate-related impacts – details of which can be found on our website. Applying and monitoring adherence to ESE risk acceptance criteria in accordance with framework.
<p>Regulatory compliance risk</p> <p>The need for NatWest Group to “observe the letter and spirit” of all laws and regulations relating to climate.</p>		<p>Introducing an Environmental, Social and Governance policy to give comprehensive guidance on relevant regulatory expectations</p> <ul style="list-style-type: none"> Reviewing existing and emerging regulatory requirements related to climate change through regulatory horizon scanning. For example, FCA Listing Rules and The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022; Dear CEO and Dear CFO letters; and the FCA Sustainability Disclosure Requirements and labelling regime, with updates reviewed periodically by Climate Change Executive Steering Group.

3.2 Our processes for identifying and assessing climate-related risk continued

Scenario analysis Overview and progress

Testing the resilience of NatWest Group’s strategy

To assess the ongoing resilience of our strategy, an evolving programme of climate scenario analysis, covering our full credit book, has been in place since 2021. We conducted **a range of climate scenario analysis exercises during 2023 to test the resilience of our strategy to the impacts of climate change**, including risk management and capital adequacy use-cases. Our 2023 climate scenario analysis programme assessed climate-related risks and opportunities across short (<5 years) and medium term (5 to 10 years) horizons to support the inclusion of climate-related analytics in decision-making and the management of climate-related risks. To support this, we continued to enhance our suite of climate risk models, developing additional in-house modelling capabilities and enhanced sector and counterparty level modelling, which further integrates climate insights into existing processes. **Enhancements included:**

- Continued integration of climate into our capital adequacy (ICAAP) and ECL measurement frameworks through our sectoral modelling approach to ensure we are adequately capitalised by measuring potential losses and testing our resilience against expected and unexpected losses. Refer to section 2.5 for how we have included climate transition assumptions into the base case used for financial planning and the assessment of ECL in IFRS reporting.
- A priority area of focus was an end-to-end test of our in-house Corporate Transition Risk Model (CTRM) which has undergone development since the CBES⁽¹⁾ exercise. This internal scenario analysis exercise informed our heightened climate-related risk sector assessment methodology and supported the independent validation of our suite of climate risk models, including our transition risk counterparty level Probability of Default (PD) and Loss Given Default (LGD) models used for translating transition risk impacts into credit risk impacts.

Our latest generation of transition risk modelling capabilities are now in place and in 2024, we will increase our focus on enhancing our physical risk modelling capabilities.

 **For details of limitations associated with modelling the effects of climate risk and the actions we are taking to mitigate, refer to page 54.**

This table provides an overview of our 2023 scenario analysis programme and each exercise relative to previous years, explained further on the following pages. The insights from these exercises support strategic decision-making in our planning processes. A holistic overview of scenario analysis carried out for non-credit risks is presented on page 54.

Exercise	2021/2022		2023		
	CBES ⁽¹⁾	ECL & ICAAP	ECL –section 3.3a	ICAAP –section 3.3a	Annual internal scenario exercise – section 3.3b
Portfolios	Full credit book	Full credit book	Full credit book	Full credit book	Wholesale only
Scenarios	Late action	Internally developed NGFS ^(2,3) Based	Internally developed scenario using UK CCC scenario	Internally developed NGFS based Disruptive Policy scenario	Internally developed NGFS based Disruptive Policy scenario
	Early action	Disorderly Transition			Inevitable Policy Response scenario
	No additional action				
Climate risks modelled	Transition risk Physical risk	Transition risk	Transition risk	Transition risk Physical risk	Transition risk
Models Used	First generation internal and third-party models	First generation internal Transition Risk macro scenario model	Second generation internal Transition Risk macro scenario model	Second generation internal Transition Risk macro scenario model and first time deployment of physical risk macro scenario model	Second generation internal Transition Risk macro scenario model and CTRM
Time Horizon	Long-term (30 yrs)	Short-term (<5 years)	Short-term (<5 years)	Short-term (<5 years)	Short-term (<5 years) Medium-term (10 years)
Granularity	Macro level	Macro level	Macro level	Macro level	Macro level
	Sector level	Sector level	Sector level	Sector level	Sector level
	Counterparty level				Counterparty level

One of the key lessons from our scenario analysis work to date 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 continues to be resilient to these risks, within the context of the scenarios tested.

(1) The Bank of England’s Climate Biennial Exploratory Scenario (CBES) exercise.
 (2) The Network for Greening the Financial System (NGFS).
 (3) There is increasing concern acknowledged by the NGFS consisting of 114 central banks, that model scenarios, including those provided by central banks and supervisory bodies and, therefore, used by NatWest Group are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible ‘tipping points’ that could lead to large, irreversible changes in the climate system (for example, the melting of permafrost or the Greenland and Antarctic ice sheets).

3.2 Our processes for identifying and assessing climate-related risk continued

Scenario analysis

Short-term insights

In 2023, we assessed expected and unexpected credit risk losses from climate change within ICAAP and ECL exercises, leveraging insights from our Climate Risk Macro models.

The Transition Risk Macro Scenario model⁽¹⁾ assesses climate-related transition risks at a sector level. In 2023, we enhanced the model to enable estimation of impacts from a wider range of demand shocks and scenario types while accounting for more realistic economic response, for example, labour market frictions. In 2023 we have also developed our first generation Physical Risk Macro Scenario model which assesses acute and chronic physical risks at a sectoral level.

For our 2022 ICAAP exercise, we assessed a scenario which included elements of disruptive climate policy using the initial version of the Transition Risk Macro Scenario model.

In 2023, we used the enhanced Transition Risk Macro Scenario model to further account for sectoral impacts within macroeconomic variables as part of our ICAAP and to inform our ECL exercises. Our 2023 ICAAP also includes physical risks assessed with the newly developed Physical Risk Macro Scenario Model.

Enhanced estimates of sector impacts from the Transition Risk Scenario Macro model help us to identify our sectoral exposure to climate-related transition risk, which is an input into our identification of sectors exposed to heightened climate-related risk, refer to pages 56 and 57.

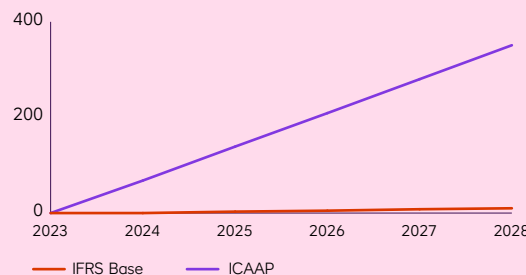
This enhanced internal capability to quantitatively assess climate-related impacts on sectors supports the assessment of resilience of our strategy to adverse short-term climate scenarios.

In 2024, we intend to mature this sectoral approach to transition and physical risks by further developing our modelling capabilities and expanding incorporation of transition and physical risk drivers into short-term scenarios.

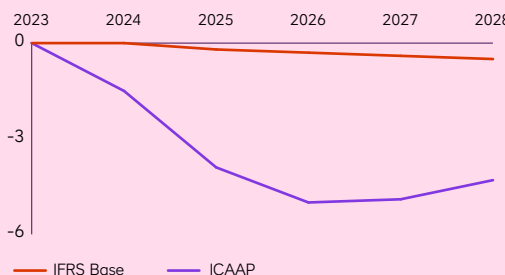
- (1) Transition Risk Macro Scenario model, formerly the Transition Risk Calculator. Refer page 31 of our 2022 Climate-related Disclosures Report.
- (2) The counterfactual is a hypothetical reference scenario without climate risk against which we assess the increase in climate-related risk over the scenario
- (3) Scenario graphs and charts in this section should be interpreted as a possible economic pathway used for modelling and not an economic prediction.

These graphs show how our Transition Risk Macro Scenario model enables us to translate climate scenarios into macroeconomic impacts. For example, for our ICAAP, we assessed the impacts of a material rise in implicit carbon costs (c. £350/tCO₂ and c. 4% GDP impact versus counterfactual scenario). The higher carbon costs assumed in the ICAAP scenario compared to that in the IFRS Base scenario reflect that the ICAAP is considered a severe but plausible downside stress, compared to a base view in the IFRS Base scenario.

Carbon prices change 2023 (£/tCO₂)⁽³⁾

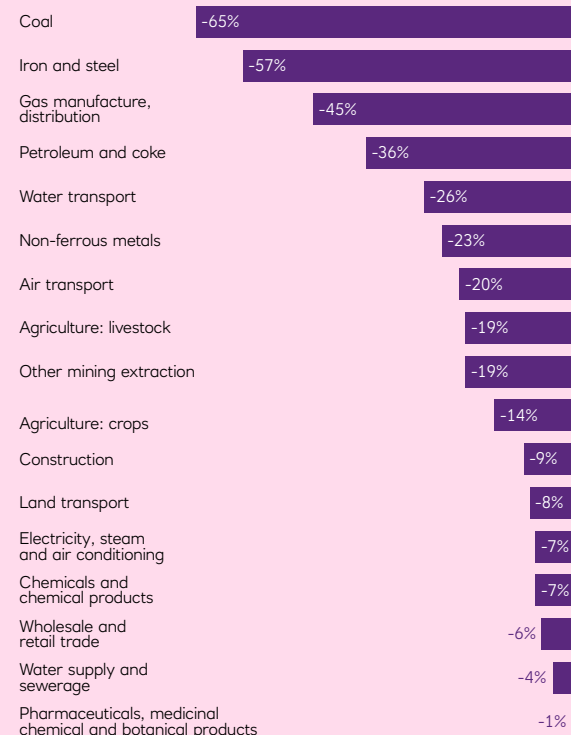


GDP impact (% difference from counterfactual)^(2,3)



The bar chart shows the climate sectoral impacts from the Transition Risk Macro Scenario model in NatWest Group's 2023 ICAAP scenario. **The results are at UK economy level and do not reflect NatWest Group's portfolio.** However, they help us to identify heightened climate-related risk sectors and feed into sector strategy. For this reason, the sector names do not align with NatWest Group sectors used elsewhere in this report.

Illustrative climate sectoral impacts, ICAAP scenario: 2023 – 2028
% difference in sector Gross Value Added from counterfactual^(2,3)



3.2 Our processes for identifying and assessing climate-related risk continued

Scenario analysis

Annual internal climate exercise and insights

In 2023, we deployed our new in-house Corporate Transition Risk Model (CTRM) as part of an internal scenario analysis exercise to assess transition-related credit risks to commercial counterparties.

This involved running the following two scenarios:

- the Disruptive Policy scenario where the introduction of policy from the NGFS Delayed Transition scenario is accelerated to 2023, and
- the Inevitable Policy Response (IPR) 1.8°C scenario which anticipates investor, corporate and civil society pressure will push policymakers to make changes between 2023 and 2033, that could result in warming at or below 1.8°C by 2100.

Combined, these scenarios tested our resilience to alternative transition pathways, including a disruptive transition, and helped to identify counterparties that are sensitive to scenario policy and technology assumptions.

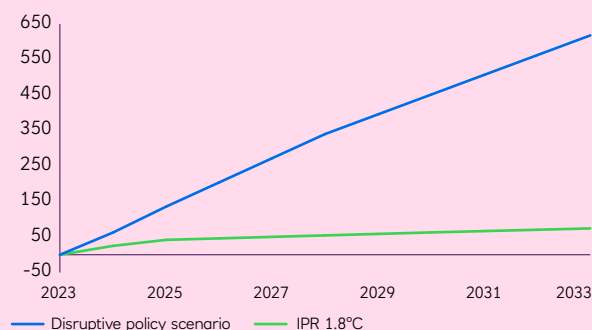
We are exploring how outputs from our counterparty level models can support risk management analytics for our larger commercial counterparties.

The CTRM estimated climate-related transition risk impacts on counterparty earnings, assets and liabilities, which were translated into PD adjustments, and impairments which were calculated for our largest commercial counterparties. This exercise applied a newly developed framework enabling us to bring together systematic risk from climate scenarios and idiosyncratic risk into a counterparty-level PD adjustment. The CTRM also includes enhanced sector-specific modules, for sectors such as power and utilities, that are most exposed to the impacts from the transition to net zero.

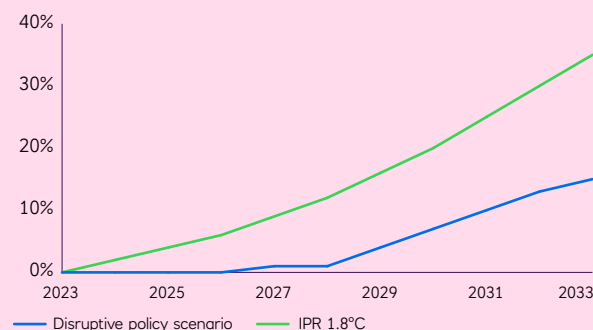
The CTRM and internal climate scenario analysis exercise builds on the learnings from the CBES. Models are capable of accounting for sector-specific exposure to climate-related transition risks and counterparty-specific responses to a limited set of demand shocks and rising carbon prices by mitigating emissions and passing costs through to customers. Through this exercise, we have successfully completed an end-to end test of our new in-house CTRM.

These graphs present examples of key scenario variables used for our internal scenario analysis. For example, in the Disruptive Policy scenario carbon prices rise by (c. £620/tCO₂) reflecting a disruptive transition while in the IPR 1.8°C carbon prices increase less rapidly and severely (c. £75/tCO₂). The IPR 1.8°C scenario is more optimistic on electric vehicle market penetration compared with the Disruptive Policy scenario and internal combustion engine (ICE) vehicles are phased out more rapidly. As a result, the rapid uptake of electric vehicles increases demand for electricity more than in the Disruptive Policy scenario while reducing oil demand in line with the Disruptive Policy scenario.

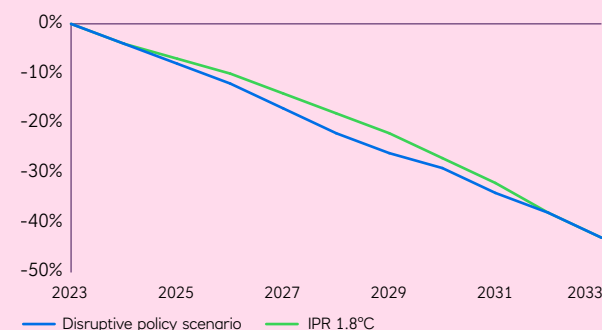
Carbon prices GBP 2022 (tCO₂)



Electricity demand difference from counterfactual (%)



Scenario 2: Oil demand difference from counterfactual (%)



3.2 Our processes for identifying and assessing climate-related risk continued

Scenario analysis

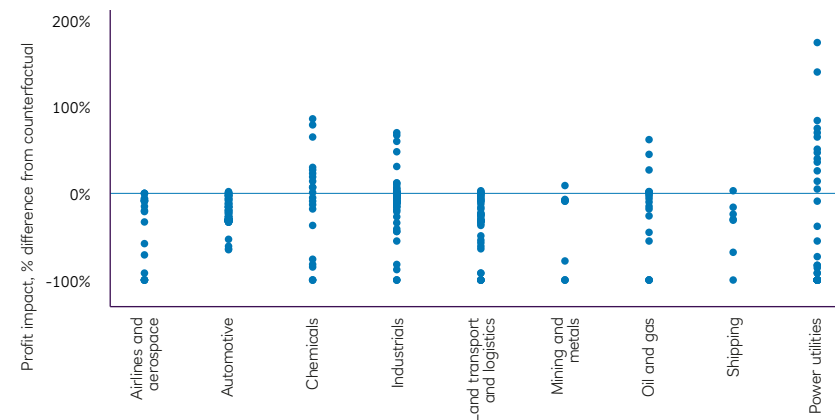
Annual internal climate exercise and insights continued

The internal climate scenario analysis exercise supported our estimation of credit impairment from climate-related transition risks across and within sectors. The sector-level insights were utilised in the latest refresh of our heightened climate-related risk sector assessment and we are exploring how the counterparty level analysis can support risk management for our larger corporate counterparties, including identifying where they are positioned relative to peers.

The chart opposite illustrates an example of the modelled distribution of counterparties within a sector, across a range of sectors. The distribution represents counterparties that are most negatively impacted (i.e. those counterparties which see a 0-100% earnings erosion over the scenario) to those counterparties which are positively impacted (>0% who benefit at the expense of counterparties less able to withstand scenario drivers). Some sectors show greater distribution between counterparties that do well and those counterparties which are less able to absorb the scenario drivers and therefore see an erosion of earnings e.g. power and utilities. Some sectors, such as automotive, see milder overall impacts on earnings whereas others such as industrials see impacts that are relatively more severe. Outcomes were calculated using hypothetical scenarios and models which continue to be enhanced and therefore the most relevant outcomes from this analysis are the distribution and rankings, rather than the absolute impacts. Sector outcomes aligned with CBES findings, however, total impairments fell for certain sectors, reflecting our reduced balance sheet exposure to oil and gas, for example.

The internal exercise prepares us for a future regulatory and internal climate stress-testing exercises. The insights from the models will support risk management use cases, for example within sector strategy decision-making.

Illustrative example of impact on companies earning by sector under the Disruptive Policy scenario (2033)

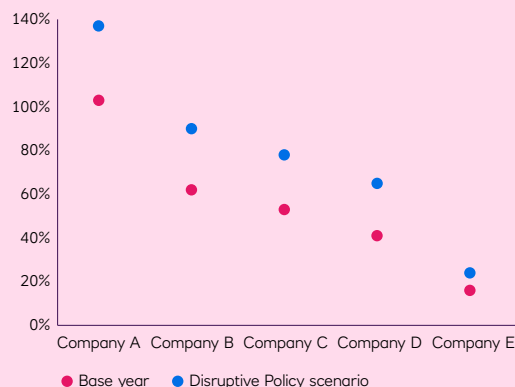


The internal scenario analysis exercise underscored the importance of credit risk management and how climate-related risks can amplify underlying credit risks.

This chart presents results from the internal exercise and shows how companies with lower margins and/or more vulnerable balance sheets (shown in the chart) were less able to absorb the impact of rising carbon prices from a disruptive transition. Impacts were further amplified when counterparty emissions intensity was estimated to be higher than the sector average, limiting the share of carbon prices that could be passed through to consumers in the scenario.

This reiterates the importance of credit risk management for increasing resilience to future potential climate-related transition risks.

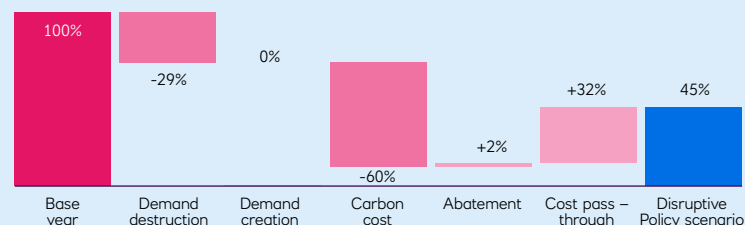
Illustrative debt-to-asset ratio impact (%)



The chart below shows an illustrative example of the impact channels on earnings of an individual counterparty in a high emissions intensity sector under the Disruptive Policy scenario.

During our internal climate scenario analysis exercise we calculated earnings impacts by impact channel on individual counterparties by sector. This allowed us to identify relative climate leaders and laggards. We also disaggregated individual counterparty results by impact channel to identify counterparty-specific drivers of risk and opportunity, including changes in demand, direct carbon costs, abatement potential and cost pass-through potential.

Illustrative example of the impact channels on earnings under Disruptive Policy scenario (2033)



3.2 Our processes for identifying and assessing climate-related risk continued

Scenario analysis

Other scenario analysis, progress mitigating limitations and future developments

Holistic assessment of climate risks

Alongside credit risk, since 2021 we have also used climate scenario analysis to test our resilience to other principal risks, outlined in this table.

Principal risk	Metrics	Use cases	Key outcomes	Scenarios
Market risk	Trading book positions in Natwest Markets	Market risk analysis and risk appetite evaluation.	Resilient to climate driven market moves.	Disorderly transition (<1 year).
Liquidity risk	Impact on outflows	Testing resilience of liquidity to physical risk triggered crisis.	Resilient to outflows driven by physical risk.	Acute physical event on NatWest Group liquidity (position <1 year and < 5 year).
Operational risk	Operational losses	Testing resilience of own operations to physical risk.	Resilient to a 1-in-25 year and 1-in-100-year scenario with a clear non-linearity identified when moving from the 1-in-25 to 1-in-100 year scenarios.	Stylised impact assessment of extreme heat events in India and the UK. 1-in-25-year scenario. 1-in-100-year scenario.
Pension risk	Pension assets and liabilities	Testing resilience of pension scheme to climate risk.	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.	CBES Scenarios over a 30-year horizon.
Conduct risk	Conduct losses	Testing resilience of control environment to potential greenwashing risks.	A forward-looking assessment of potential extreme but plausible events on our customers and the bank. Impacts are stable against 2022 assessment.	Greenwashing scenario, a stylised example of conduct failures in the green and sustainable finance market.

Progress mitigating limitations

Over the course of 2023, our scenario analysis work continued to build internal capability and mitigate the limitations identified in previous scenario exercises. In line with Prudential regulatory Authority (PRA) expectations and ensuring increased transparency and control over climate risk assessments, we have brought additional modelling capabilities in-house, which means we can increase the relevance of scenarios and models to NatWest Group’s business and strategy.

Two key limitation themes, consistent across the industry, are: (i) the quality and completeness of key data items, such as emissions data and (ii) the ability of climate scenarios to fully capture the range of climate risks, such as the cascading risks from extreme weather events arising from climate change. The table below sets out our work to continue to try to address these limitations, among others.

- 1 We started to develop event-based climate scenarios that test the impact of extreme weather on residential properties in the UK. This allows us to identify and estimate credit impairment from ‘tail’ risks, which may be obscured when physical impacts are assessed using average impacts across time and space.
- 2 We enhanced our climate data library, bringing in new datasets to increase granularity. For example, we updated our flood risk data provider and expanded our physical risk peril coverage to include European windstorm.
- 3 We improved model, data and process consistency across principal risk types and lending books. In 2023, we increased consistency between the sectoral and counterparty-level modelling approaches.
- 4 A number of key data limitations remain, including persistent data challenges for small and medium enterprises, which limits the granularity of analysis possible for sectors such as agriculture, and data on underlying exposures for financial sectors such as banking and insurance counterparties. NatWest Group is working closely with industry bodies and data providers to scope new or developing data sources while working with our customers to enhance direct data collection where possible.

Future developments

From 2024 and beyond, we intend to continue to deepen our climate risk modelling, build additional internal capabilities and further embed climate scenario analysis into decisioning. A maturing capability to model must be met with the capability to embed in effective decision-making, which remains relatively limited. We will continue to expand integration in decision-making through 2024 and beyond:

- Exploring enhanced short-term ‘decision useful’ climate risk scenarios that capture the potential impacts of extreme weather events at both a UK and global level as a result of the climate warming already observed, and how these could interact with potential changes in UK and global climate policy.
- Developing and further testing our climate risk models for UK residential and commercial properties, including an event-based physical risk scenario exercise.
- Expanding use of our Physical Risk Macro Model, to further embed physical risks into our ICAAP and ECL frameworks. We also intend to enhance our CTRM by exploring further sector specific-modules for heightened climate-related risk sectors as appropriate.
- Continuing to respond to regulatory expectations and preparing for future climate scenario analysis exercises.

3.2 Our processes for identifying and assessing climate-related risk continued

Identifying and assessing risks to the wholesale portfolio

Enhanced processes have been introduced which support the identification and assessment of climate-related risk. Processes are applied at a portfolio and transactional level within the wholesale portfolio.

Portfolio level assessment

The ability to identify sectors and sub-sectors exposed to **heightened climate-related risk**, and factoring this into our capital allocation decisions, is imperative in enabling us to meet our ambition to at least halve the climate impact of our financing activity by 2030, against a 2019 baseline. NatWest Group's heightened climate-related risk sector assessment seeks to identify sectors that are likely to see increased credit risks for NatWest Group as a result of climate-related factors, over a 10-to-15-year horizon. Since 2022 we have assessed climate risk at a sub-sector level, allowing for targeted action, and our methodology continues to evolve.

The assessment applies three lenses which consider:

- 1 Transition Risk:** using the IPR 1.8°C and Disruptive Policy scenarios, which were carried out as part of the 2023 internal climate scenario analysis exercise, as well as the CBES Late Action scenario, along with external expert sector assessments.
- 2 Physical Risk:** using the CBES No Additional Action scenario as well as import and export data to capture trade dependencies with countries that are vulnerable to physical risks.
- 3 Liability Risk:** using the most current financed emissions rates (tCO₂/£m) at the time of assessment for each sub-sector to estimate past, present and future liability risk⁽¹⁾.

For 2023, this approach identified 42 subsectors exposed to heightened climate-related risk, increasing to 51 within 20 wholesale sectors, following a qualitative overlay applied by internal subject matter experts. This overlay reflects climate-related risks not captured within the modelling process but present within the broader external sub-sector. A separate assessment of internal mitigating action and policy is also carried out to guide internal use cases. Exposure to heightened climate-related risk sectors is monitored on a quarterly basis, alongside the Commercial & Institutional operational limits, which are reviewed monthly and enable quantitative franchise climate risk management. From 2024, we intend to further incorporate heightened climate-related risk sector scores into our wholesale pricing methodology, inform capital allocation, sub-sector appetite and climate risk scorecards to assist with credit decisioning.

 **A detailed view of heightened climate-related risk sectors follows on the next two pages.**

Transaction level assessment

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

The initial suite of qualitative climate risk scorecards were launched in 2021 with climate conversation and commentary now mandatory in credit reviews, at least annually, for new to bank transactions or where there is a material change in climate risk. This enhances our capabilities, and will allow us to better assess climate-related risks and potential opportunities to support transition, at both a wholesale portfolio and an individual wholesale customer level.

During 2023, we completed a review and recalibration exercise to enhance the quality of the insights generated by the qualitative climate risk scorecards. This included providing refined guidance to our customer relationship managers. Through this process we continue to build capability among first and second line risk colleagues, and a culture where consideration of climate risk is part of the credit journey.

In parallel with the roll-out of the initial suite of qualitative climate risk scorecards, over 2023 we have further enhanced the scorecards to incorporate more quantitative inputs as part of a new set of customer decisioning tools within CDF. The tools seek to leverage the experience gained from the design and implementation of the initial suite of qualitative climate scorecards. The new tools sit within existing systems and aim to enhance quantification in the assessment by leveraging internal and external data points where available e.g. customer emissions data. We intend to launch CDF on phased, test-and-learn basis from early 2024, starting initially with customers in our large corporate and FI customer segments.

 **For further details on our customer engagement tools within CDF, refer to page 32.**



(1) Published 2021 estimates of financed emissions were used due to timing of NatWest Group's heightened climate-related risk sector assessment.

3.2 Our processes for identifying and assessing climate-related risk continued

Heightened climate-related risk exposure

The below table highlights all sectors with exposure^(1,2) classified as heightened climate-related risk and is ordered based on the sector with the most exposure that is heightened as at 31 December 2023. Exposure is based on loans, loan commitments and contingent obligations. Risk impacts associated with the residential mortgage portfolio are discussed in detail in sections 2.4 and 3.3, and exposure is consolidated below for completeness. The amounts reported in the below table include all lending to customers including climate and sustainable lending.

Colour coding indicates where sectors are assessed to be heightened relative to other sectors for a particular type of climate-related risk.

Physical Risks Transition Risks Liability Risks

Sector/Portfolio	Main driver for inclusion	As at 31 December 2023 ⁽¹⁾					As at 31 December 2022				
		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		89,476	57,835	147,311	100,430	19.2%	89,601	58,164	147,765	85,956	16.7%
Commercial real estate	Physical Risks	17,101	7,261	24,362	24,362	4.6%	17,475	7,090	24,565	24,565	4.8%
Housing associations	Physical Risks	9,474	5,496	14,970	14,969	2.9%	8,829	5,787	14,616	14,616	2.8%
Power utilities	Transition Risks, Liability Risks	6,062	8,811	14,873	14,872	2.8%	4,640	8,142	12,782	7,942	1.5%
Construction	Physical Risks	4,320	1,448	5,768	5,769	1.1%	4,729	1,432	6,161	6,161	1.2%
Water and waste	Liability Risks	3,722	1,988	5,710	5,710	1.1%	3,368	2,244	5,612	1,941	0.4%
Agriculture	Physical Risks, Transition Risks	4,952	971	5,923	5,681	1.1%	4,773	992	5,765	5,765	1.1%
Leisure	Physical Risks, Transition Risks	6,927	2,032	8,959	4,950	0.9%	7,463	2,009	9,472	4,108	0.8%
Land transport and logistics	Physical Risks, Transition Risks	4,870	3,209	8,079	4,152	0.8%	5,142	3,557	8,699	4,329	0.8%
Oil and gas	Physical Risks, Transition Risks, Liability Risks	1,067	2,196	3,263	3,262	0.6%	1,172	2,405	3,577	3,577	0.7%
Building materials	Physical Risks, Liability Risks	1,558	1,547	3,105	3,106	0.6%	1,541	1,484	3,025	3,025	0.6%
Food and consumer ⁽³⁾	Physical Risks, Transition Risks	1,924	3,464	5,388	2,861	0.5%	2,413	3,245	5,658		
Automotive	Transition Risks, Liability Risks	8,307	3,947	12,254	2,504	0.5%	7,304	4,108	11,412	2,604	0.5%
Industrials	Transition Risks, Liability Risks	2,882	3,044	5,926	2,344	0.4%	3,267	3,330	6,597	1,691	0.3%
Airlines and aerospace	Transition Risks, Liability Risks	1,982	1,966	3,948	2,161	0.4%	1,734	1,889	3,623	2,730	0.5%
Chemicals	Liability Risks	420	798	1,218	1,217	0.2%	502	662	1,164	1,164	0.2%
Mining and metals	Transition Risks, Liability Risks	277	552	829	829	0.2%	408	550	958	958	0.2%
Business services ⁽³⁾	Liability Risks	4,246	2,770	7,016	685	0.1%	4,840	2,877	7,717		
Finance companies ⁽³⁾	Physical Risks	1,752	1,087	2,839	391	0.1%	1,282	1,131	2,413		
Shipping	Transition Risks	245	102	347	346	0.1%	326	132	458	458	0.1%
Retail	Transition Risks	7,388	5,146	12,534	259	0.0%	8,393	5,098	13,491	322	0.1%
Residential mortgage portfolio	Physical Risks, Transition Risks	208,275	9,843	218,119	218,119	41.6%	202,957	18,782	221,739	221,739	43.1%
Total NatWest Group⁽⁴⁾		392,040	131,958	523,998	318,549	60.8%	377,153	137,026	514,179	307,695	59.8%

(*) Within the scope of EY assurance. Refer to page 6. Footnotes for this page are on the following page.

Heightened climate-related risk sector identification⁽⁵⁾

In some sectors, only certain sub-sectors are classified as heightened climate-related risk as activities in these sub-sectors are comparatively more exposed to extreme weather, changes in technology, policy and consequent consumer demand patterns, or liability risk linked to higher emissions. In particular:

- Within leisure, activities at greater risk from extreme weather and changing demand patterns have been classified as heightened climate-related risk.
- Heightened climate-related risk within food and consumer relates to food manufacturing activities which are subject to physical risks within upstream supply chain, and shifting downstream consumer demand patterns.
- Within automotive and, land transport and logistics sectors, heightened climate-related risk sub-sectors are more exposed to extreme weather events, along with activities facing transition risk linked to rapid technology change as well as policies around electrification.
- Within industrials activities that are more emissions-intensive, or where there is more rapid transformation of supply and demand dynamics, are included within heightened climate-related risk.
- Property-related sectors: commercial real estate sub-sectors, housing association and residential mortgage portfolio are considered heightened climate-related risk due to exposure to physical risk.

Heightened climate-related risk exposure

- Total wholesale heightened climate-related risk exposure increased by £14.5 billion during 2023, in part to the inclusion of three additional sectors due to updated methodology. Additionally, all activities within power utilities, are now classified as heightened for 2023. There has also been portfolio growth in terms of renewables projects within electricity generation. Likewise, water and waste is also wholly classified as heightened, while in 2022 this was limited to waste.
- Total exposure to the oil and gas sector decreased by £0.3 billion compared with 31 December 2022.
- Exposure to coal customers, as defined in the Credible Transition Plan (CTP) assessment⁽⁶⁾ completed in 2021, was £0.3⁽¹⁾ billion as at 31 December 2023 (£0.3 billion as at 31 December 2022).

3.2 Our processes for identifying and assessing climate-related risk continued

Sector/Portfolio	Loans by geography ⁽¹⁾ £m			Loans by asset quality ⁽²⁾ £m			Loans by residual maturity £m		
	UK	Europe	RoW	AQ1-4 - Total	AQ5-9	AQ10	<1yr	1-5yr	>5yr
Wholesale heightened climate-related risk sectors	82,666	12,112	5,652	55,613	43,622	1,195	23,137	54,300	22,993
Commercial real estate	23,597	643	122	10,391	13,589	382	5,114	18,151	1,097
Housing associations	14,969	0	0	14,578	377	14	335	5,126	9,508
Power utilities	7,515	6,137	1,220	11,262	3,563	47	3,394	7,785	3,693
Construction	5,504	220	45	1,003	4,523	243	2,316	3,011	442
Water and waste	5,612	98	0	4,245	1,449	16	842	2,530	2,338
Agriculture	5,585	14	82	728	4,864	89	1,920	1,831	1,930
Leisure	4,354	245	351	745	4,080	125	1,235	2,659	1,056
Land transport and logistics	3,573	573	6	2,295	1,803	54	1,113	2,417	622
Oil and gas	1,716	758	788	2,155	1,061	46	851	1,911	500
Building materials	2,475	610	21	1,235	1,798	73	1,193	1,710	203
Food and consumer	1,717	346	798	1,318	1,530	13	1,591	1,137	133
Automotive	753	1,331	420	1,918	570	16	388	2,095	21
Industrials	1,978	177	189	936	1,376	32	1,118	975	251
Airlines and aerospace	873	289	999	1,310	847	4	339	1,170	652
Chemicals	593	564	60	537	676	4	280	660	277
Mining and metals	401	17	411	464	361	4	607	194	28
Business Services	590	4	91	215	450	20	178	472	35
Finance Companies	391	0	0	105	286	0	164	227	0
Shipping	219	78	49	160	175	11	114	113	119
Retail	251	8	0	13	244	2	45	126	88
Residential mortgages portfolio	218,119	0	0	127,366	88,456	2,297	11,053	10,488	196,578
Total Natwest Group	456,438	36,537	31,023	302,300	215,448	6,250	145,233	141,860	236,905

Footnotes page 56:

- (1) Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only. For consistency with credit risk reporting in the 2023 NatWest Group plc Annual Report and Accounts, loan assets shown for 31 December 2023 exclude £(0.4) billion of assets that are out of scope of expected credit loss consideration.
- (2) Off-balance sheet includes loan commitments and contingent liabilities.
- (3) These sectors were identified as heightened climate-related risk sectors under the updated methodology in 2023 for the first time.
- (4) As at 31 December 2023, £472.6 billion exposure was subject to the heightened climate-related risk assessment, of which sectors and sub-sectors totalling £106.8 billion didn't meet the threshold required to be classified as heightened climate-related risk, on a physical, transition or liability risk basis. Sectors and sub sectors totalling £51.4 billion were not subject to the heightened climate-related risk assessment, of which £41.2 billion relates to the personal portfolio, primarily credit cards and overdrafts. £5.1 billion relates to securitisations, £2.3 billion to central clearing counterparties and £2.8 billion of central bank exposure.
- (5) Heightened climate-related risk sector methodology is used to identify segments of the portfolio with inherent heightened risk, which is then used to support portfolio management, including risk appetite setting, to effectively manage the inherent risk. The sector assessment within this disclosure provides an aggregate view at industry level; within each sector there will be a diverse mix of counterparties, and as such climate-related risk will vary from customer to customer.
- (6) As defined in the Credible Transition Plan (CTP) assessment, a point-in-time assessment which concluded in 2021. This exercise supported our stated ambition to stop lending and underwriting to companies with more than 15% of activities related to coal (thermal and lignite) engaged in mining, power generation and trading activities, unless they had a CTP in line with the 2015 Paris Agreement in place by the end of 2021. Refer to pages 30 and 31 of our [2021 Climate-related Disclosures Report](#) for further details of the assessment of CTPs for oil and gas majors and in-scope coal customers.

Footnotes page 57:

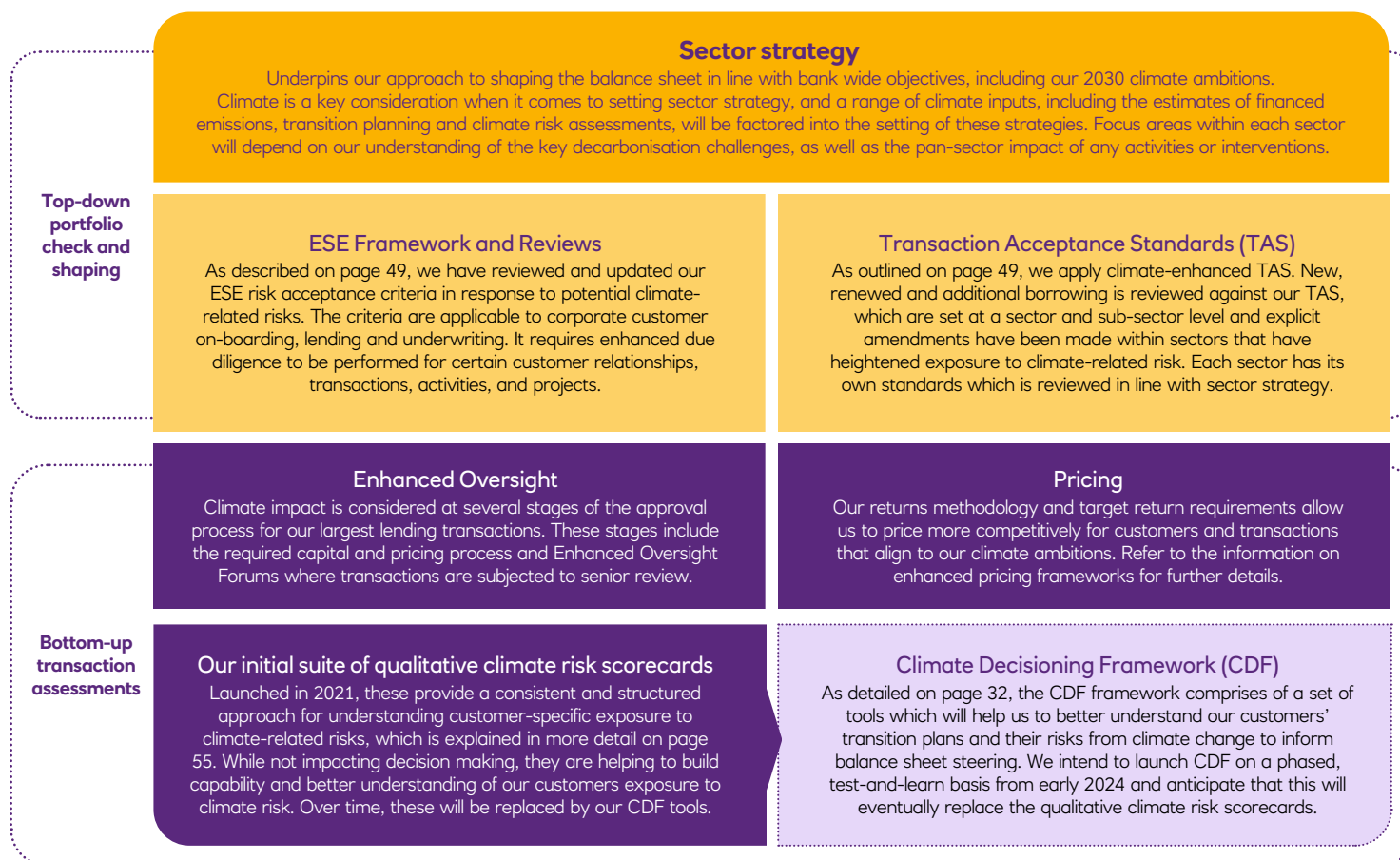
- (1) Geography is based on the country of operation of the customer, where cashflows are primarily derived from.
- (2) Asset quality is based on Basel probability of default estimates where customers categorised as AQ1 have a very low probability of default in the next 12 months while AQ10 represents customers that are already in default. Refer to the credit risk section of the [2023 NatWest Group Plc Annual Report and Accounts](#) for a mapping between asset quality band and indicative S&P Ratings.

3.3 Managing climate-related risks

Managing climate-related risks to the wholesale portfolio

The effective management of climate risk requires the full integration of climate-related risk factors into strategic planning, transactions, and decision-making. This page 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.

Considerations of climate factors within wholesale portfolio management



Enhanced pricing frameworks

During 2023, the Commercial & Institutional business segment continued to make enhancements to pricing frameworks to further include climate considerations. These enable us to support businesses to help address the climate challenge and to reshape the Commercial & Institutional business segment towards more sustainable, transition-aligned transactions.

For our SME customers, we completed our current round of SME pricing framework enhancements with updates to the trade services frameworks. These enhancements provide pricing discounts for customers within sub-sectors most closely aligned to our climate ambitions and overall strategic objectives.

For corporate customers we enhanced our approach to making capital allocation decisions aligned to our climate ambitions. This includes greater linkage between both our return methodology and target return requirements, and our heightened climate-related risk sector methodology. This delivers a more quantitative approach to decisioning within the context of a climate-related risk, enabling more comprehensive risk-based pricing.

For information on how we are progressing our Climate transition plan, refer to section 2.3.

For asset management refer to page 82.

3.3 Managing climate-related risks continued

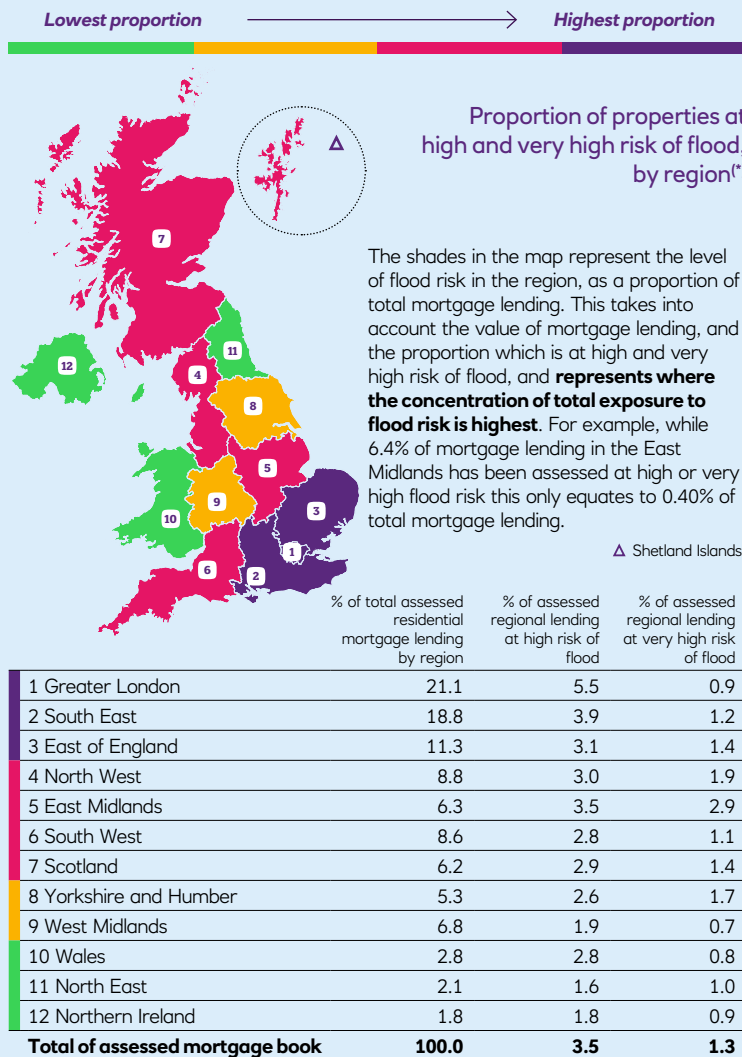
Managing risks to the residential mortgage portfolio

Flood risk

Residential mortgages secured against properties in high or very high flood risk areas are determined to be at heightened climate-related risk due to the increased likelihood that they may suffer a flooding event.

For any new mortgage lending decisions, flood, subsidence, coastal and environmental risks are assessed as part of the valuation process. For a property in high flood risk area, we require the valuer to physically inspect the property and surrounding area to assess physical risks at an individual property level that might potentially impact a customer's ability to obtain home insurance.

- the flood analysis presented in the map is based on present day risk levels⁽¹⁾ which take into account the probability of flood events occurring
- this **analysis assessed c.98.3%** of the NatWest Group UK mortgage portfolio. On a total volume basis, present day UK mortgages at high risk of flooding are 3.5%⁽¹⁾ of the assessed portfolio and those at very high risk are 1.3%⁽¹⁾ of the portfolio. This is slightly lower than the overall UK volume-based analysis with high of 4.0% and very high of 2.2%.



Energy efficiency

Energy efficiency is identified as a potential climate-related risk factor within the mortgage portfolio. Supporting our UK mortgage customers to increase their properties' residential energy efficiency is a key part of our climate ambition. Details of EPC distribution within our mortgage portfolio can be found on page 23.

The residential mortgage portfolio has been identified as exposed to heightened climate-related risk due to potential physical and transition risks, refer to pages 56 and 57.

Managing our risk

Our criteria for decision-making and reducing concentration risk

During 2023 we applied lending limits based on climate characteristics, with timely remedial action required for limit breaches, as follows:

- EPC A and B rated properties
- buy-to-let properties with potential EPC rating between D and G
- flats, new builds, and buy-to-let properties at high or very high risk of flood.

Refer to page 53 of our [2022 Climate-Related Disclosures Report](#) for more information.

Additionally, our credit policies do not allow buy-to-let mortgages to properties with an EPC rating between F and G. Limits are continually reviewed to reflect new flood risk data and [Flood Re](#), risk profile and market conditions, including regulation.

Data for flood risk analysis: Flood risk data is obtained through our third-party vendor, RHDHV, and their flood risk analysis provides a measure of the likelihood and severity of a flood hazard affecting each individual property. This property-specific rating process analyses all layers within the United Kingdom FloodMap product via a weighted algorithm which looks at the predicted severity and the frequency of flooding from multiple sources.

Flood scores: RHDHV use a proprietary derivation of industry standard depth-damage curves (derived from the Multi-coloured Manual), then calculate an estimated loss in Pounds Sterling (£) for each flood source (fluvial, pluvial, tidal) and return period based on a national average residential property assumed to occur. The losses for each flood source are then annualised to provide an average annual loss (EAAL) for each flood source, and then combined to create a combined EAAL. The higher the combined EAAL the higher the flood score with a range of 0 to 100. Greater than 60 is high flood risk and greater than 80 is very high risk.

Coverage: The residential mortgage portfolio has 67.6% (by value) coverage of EPC ratings and 98.3% (by value) coverage of flood ratings.

(1) RHDHV flood score model as at 31 October 2023 and NatWest Group residential mortgage portfolio data as at 31 December 2023.

(*) Within the scope of EY assurance. Refer to page 6.



Serving our customers every day

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.

- 4.1 Climate governance model
- 4.2 Board oversight
- 4.3 Management responsibilities

4.1 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 4.2 and management’s role in assessing and managing risks and opportunities is detailed in section 4.3.

Board level governance

NatWest Group Board — Responsible for promoting the long-term sustainable success of NatWest Group, sets strategic aims, monitors and oversees progress against strategic climate targets.

<p>Group Board Risk Committee Considers current and potential future climate risk exposures.</p>	<p>Group Sustainable Banking Committee Oversees actions being taken to run the bank as a sustainable business and progress against our climate ambition.</p>	<p>Group Nominations and Governance Committee Monitors NatWest Group’s governance arrangements and oversees review of Board skills and succession activity.</p>	<p>Group Audit Committee Considers financial and non-financial disclosures and receives assurance regarding the robustness of controls supporting these disclosures.</p>	<p>Group Performance and Remuneration Committee Oversees link between climate strategy and remuneration.</p>
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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.

<p>Executive Risk Committee Chaired by the Group CRO, reviews and challenges all material risk exposures including operational, reputation and climate risk.</p>	<p>Climate Change Executive Steering Group Chaired by the Director, Strategy, Corporate Development & Sustainability. Responsible for delivery and implementation of NatWest’s climate strategy and commitments, ensuring a One Bank approach.</p>	<p>Executive Disclosure Committee Chaired by the CFO, together with ESG⁽³⁾ Disclosures Steering Group, reviews all material financial and non-financial disclosures, including climate disclosures.</p>	<p>Group Reputational Risk Committee Chaired by and supporting the Group CRO, reviews and recommends to the CRO approval of the Environmental, Social & Ethical Risk Framework.</p>
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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 Climate Steering Committee	Wealth Climate Change Executive Steering Group	Commercial & Institutional Climate Engagement Forum⁽⁴⁾	RBS International Climate and ESG Steering Group⁽⁵⁾	NatWest Markets Climate and Sustainability Committee Steering Group⁽⁶⁾	Own Operations & Data Climate Executive Steering Group	Climate Data Steering Group
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Core Cross-Bank Working Groups

Climate Risk Oversight Forum	Climate Infrastructure Group	Climate Opportunities Group
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(1) For further information on NatWest Group’s corporate governance framework refer to the Corporate Governance section of the [2023 NatWest Group Plc Annual Report and Accounts](#).

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

(3) Environmental, Social and Governance.

(4) Includes RBSI and NWM as appropriate.

(5) Relating to activity outside the ring-fence.

(6) Relating to non-ring-fenced bank activity.

4.2 Board oversight

The following pages set out how the NatWest Group plc Board (the Board) oversaw climate-related risks and opportunities during 2023. Further detail of the Board composition can be found on page 104 of the 2023 NatWest Group Plc Annual Report and Accounts.

The Board considered climate-related matters at five of its eight scheduled meetings during 2023.

The Group CEO updated the Board on climate-related risks and opportunities impacting NatWest Group, our customers, and key stakeholders. In February 2024, the Board reviewed progress and challenges against the initial Climate transition plan, and approved disclosure on NatWest Group's Climate transition plan included within the 2023 Climate-related Disclosures Report. Progress will continue to be tracked at an executive and Board level.

The Board received updates on climate and environmental-related matters in February, July, September, October and December 2023. These included a discussion of the key opportunities and challenges, as well as a spotlight on supporting customers' transitions, updates on the Climate transition plan and sustainability-related opportunities. The Board also received regular updates through the Group CEO report, Group CFO report, risk management report and business updates in advance of every Board meeting. Committee chairs provided the Board with an overview of relevant discussions at committee meetings.

Key climate-related matters discussed and approved by Board during 2023 include:

February

- Approved 2022 Climate-related Disclosures Report, including the initial iteration of NatWest Group's Climate transition plan, and the 2022 Environmental, Social and Governance (ESG) Disclosures Report.
- Approved Executive Director (ED) bonus scorecard, including performance against climate targets.

July

- Updates received on NatWest Group's developing approach to nature.

September

- Focused on supporting customers' sustainability transitions and broadening the sustainability opportunity.

October

- Board training delivered on nature and biodiversity by WWF.

December

- Approved climate and nature risk appetite statement and measures.
- Updates received on progress against climate ambitions as part of Budget considerations.
- Determined the final performance assessment against the climate targets linked to the ED scorecard.



Nature and biodiversity training

Our Board training programme builds Directors' understanding and capability in areas of strategic and regulatory interest. In October 2023, the Board received its annual climate and environmental training session. The session was focused on nature and biodiversity with the acknowledgment of the importance and pace of development relating to this topic.

A bespoke session was led by the Chief Economist at WWF centred on specific themes including the importance of nature to the climate crisis, the economy's dependence on natural capital, regulatory frameworks, the financial risks associated with nature and biodiversity loss, and the integration of nature-related risks and opportunities into financial decision-making. The session focused on discussion, reflection and debate, and helped Board members consider their role in developing NatWest Group's approach to nature.

In addition to Board training, we continue to invest in our people to build the future skills and behaviours we need to realise our climate ambition – refer to page 34.

For information on Board skills and experience in relation to environmental, social and governance, including climate, refer to page 90 of the 2023 NatWest Group Plc Annual Report and Accounts.

4.2 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 2023.

Climate risk reporting, including performance against risk appetite, is embedded within franchise and functional risk reporting to BRC. Risk management reporting is presented at each meeting and covers both top and emerging threats and principal risks.

Discussion of climate risk during 2023 focused on regulatory and industry developments. Including changes to the climate risk appetite measures and policy and function performance towards the climate maturing framework. The approach to disclosures and targets were also considered as well as, nature risk considerations to enable NatWest Group's strategic direction.

Group Sustainable Banking Committee

The Group Sustainable Banking Committee (SBC) considered climate-related matters at all five of its scheduled meetings in 2023.

The Committee had dedicated spotlights on climate and environmental progress which considered progress against our climate ambitions as well as climate-related risks and opportunities. Areas of focus during 2023 included the development of tools to support customers in their transition, such as the development of CDF, identification of sustainable growth opportunities through the adoption of a systems thinking approach to partnerships, and the development of a framework to assess the impact of climate levers. Progress on climate and sustainable funding and financing and Climate transition plan delivery updates were also provided.

The SBC considered a management information dashboard at every meeting which provided a snapshot of progress against key metrics and targets, including climate-related ambitions and targets. It also considered performance against climate-related executive targets, providing advice to the Group Performance and Remuneration Committee.

Group Audit Committee

The Group Audit Committee (GAC) considered climate-related matters at two of its five scheduled meetings during 2023.

GAC discussed and provided feedback on the 2023 Climate-related disclosures report, including transition plan information, focusing on the developing control environment. A significant area of discussion related to dependency on external factors and whether they continued to support achievement of NatWest Group's climate ambitions. GAC noted the developing nature of climate measurement standards, particularly in relation to the estimation of Scope 3 financed emissions, which has an inherent potential for double counting across entities in the same value chain. GAC noted that climate metrics should be read acknowledging these are in initial stages of development and subject to change as standards emerge, availability of data improves and control environment is further enhanced.

Key climate-related matters discussed by BRC during 2023, in addition to the risk management reports, included:

September

- Received a climate risk spotlight, which highlighted progress in 2023. This included progress on embedding the climate risk framework and tool enhancements, an update on franchise delivery against the Climate transition plan, consideration of key outstanding risks and a look ahead to future areas of focus.

December

- As part of the annual review of risk appetite the BRC recommended a revised climate and nature risk appetite statement and measures to Board for approval. The changes reflected the Climate transition plan being in place. From January 2024, the climate risk definition was broadened to include nature risk.

Key climate-related matters discussed by SBC during 2023, in addition to the management information dashboard, included:

April

- Spotlights on CDF, growth opportunities, how we consider trade-offs, and development of our systems thinking approach to support our climate ambition.
- Representatives from Autonomous Research LLP shared their views on NatWest Group's climate approach and helped to promote external voices in the boardroom.
- Update on the tools and processes that have been enhanced to operationalise the Climate transition plan and support customers including various decarbonisation solutions.

September

- Pilot projects demonstrated the value of systems thinking and sustainability-related growth opportunities.
- Strategic partnerships established to develop our thinking and help identify and further climate-related opportunities, for example with McCain Foods and WWF.
- Progress on climate and sustainable funding and financing and efforts to co-develop solutions with corporates to deploy into supply chains by sharing cost and risk.
- Oversight of the implementation and delivery of the Climate transition plan.
- Updates on sustainable bonds and green finance products demonstrated the initiatives underway to support customers in all sectors.

December

- Update on key activities to align our supply chain to the bank's climate ambitions, including the refreshed Supplier Charter. Supply chain decarbonisation pilots have provided insights that inform our 2024 approach.

Key climate-related matters discussed by GAC in 2023 included:

February

- The committee discussion focused on the Climate transition plan, financed emission models which supported the development of those plans, and the emerging nature of industry reporting guidelines. The committee also received a summary of work completed by Internal Audit which, on the basis of work performed, supported the reporting produced.

December

- Discussion related to NatWest Group's dependency on external factors and whether they continued to support achievement of NatWest Group's climate ambition.

4.2 Board oversight continued

Group Performance and Remuneration Committee

The Group Performance and Remuneration Committee (RemCo) considered climate-related matters at four of five scheduled meetings during 2023.

RemCo's focus is on setting and assessing the climate-related goals, measures and targets attached to ED pay. Climate measures are also embedded within the NatWest Group-wide annual bonus pool performance assessment. RemCo received updates on how NatWest Group has performed against its climate goals. The final assessment of performance against targets is published in the [Directors' remuneration report \(DRR\)](#).

Key climate-related matters discussed and approved by RemCo during 2023 included:

January	February	April	December
<ul style="list-style-type: none"> – Recommended the final ED bonus scorecard for 2023, including climate targets, to Board for approval. – Reviewed the draft DRR which included the 2022 performance assessment against ED climate targets. 	<ul style="list-style-type: none"> – Discussed and approved the proposed 2023 climate measures and targets for Executive Committee (ExCo) members, ExCo attendees and other CEO-1 colleagues. 	<ul style="list-style-type: none"> – Approved the proposed NatWest Group-wide bonus pool methodology for 2023, including the proposed climate measures and targets. 	<ul style="list-style-type: none"> – Recommended the final performance assessment against the 2023 climate targets included in the ED bonus scorecard to Board for approval.

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 2023.

This included consideration of Board and Board Committee composition to ensure that overall balance of skills, knowledge, experience and diversity on the Board is maintained, including ESG and climate knowledge and experience. Given the increasing importance of nature and biodiversity, when reviewing our Board skills matrix for 2023, directors were also invited to consider their experience in this area in the context of ESG. N&G recommended the appointment of Rick Haythornthwaite to succeed Sir Howard Davies as Chair of the Board in April 2024. Skills, competencies, training, upskilling and induction activity formed a key part of the candidate assessment process.

 For further details of the Board skills matrix refer to page 90 of the 2023 NatWest Group Plc Annual Report and Accounts.



Incentivising climate change progress


We have included a climate goal and related measures in our ED performance goals since 2020. Climate progress is an integral part of the annual bonus scorecard introduced under our ED Remuneration Policy.

For 2023, 10% of potential annual bonus was based on performance against the following climate ambitions,

1. Implementation of the initial iteration of our Climate transition plan, with four sectors on target and one of the two assets under management and retrofit milestones achieved. - **Achieved in 2023**
2. Climate and sustainable funding and financing with a target of £25.3 billion in 2023. - **Achieved in 2023**

In 2024, the potential annual bonus percentage linked to climate was placed at 10%.

From 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 colleague effort to support progress on our climate ambitions is reflected in pay decisions. A new colleague-wide 'Sharing in Success' scheme was introduced for 2023, which aims to recognise bank-wide behaviours and outcomes and drive a performance culture centred around our strategy, to reflect the importance of our climate ambitions as an integral part of our strategy. This was one of the key measures of success in 2023.

 For further detail refer to our Directors' remuneration report on page 127 of the 2023 NatWest Group Plc Annual Report and Accounts.

4.3 Management responsibilities

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

NatWest Group-wide accountabilities at executive and management level

Climate accountabilities for identifying and managing financial risks and non-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 assist in discharging their responsibilities and supporting collaboration across the organisation.

The Group CEO and Group CRO oversee all executive reporting to the Board and its committees on climate-related matters, including the Climate transition plan.

The Group CEO's responsibility for strategic delivery is delegated to the executive team. Each member has responsibility for strategic delivery relating to financial risks and opportunities that arise from climate change for their area, ensuring NatWest Group identifies, manages and reports on opportunities as well as exposure to risks.

The Group CRO is responsible for ensuring that the financial risks and non-financial risks of climate change are reflected in the enterprise-wide risk management framework (EWRMF) 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 their delegates are supported by the Climate Risk Oversight Forum, which serves as an important engagement and oversight mechanism.

A bank-wide approach to integrated business and functional governance

Under our integrated governance structure, business areas ensure that climate considerations are built into decision-making. Accountable executives are empowered to take decisions within their areas of accountability and responsibility. There are clear escalation and reporting routes in place to executive-level committees and cross-bank working groups, which assist in discharging responsibilities and supporting collaboration across the organisation.

The core steering groups that form part of our business and franchise level governance are outlined in section 4.1, all of which support delivery of our climate ambitions.

During 2023, Climate Change Executive Steering Group (CCESG) continued to focus on overseeing strategic progress against NatWest Group's climate ambitions as well as supporting executive recommendations to the Board on climate. A key focus has been supporting the implementation of our systems thinking approach, (see page 15) and identifying opportunities to support customer transition through existing and potential products and services such as our Home Energy Hub, as shown on this page. CCESG also continued to encourage collaboration with the UK Government and NGOs as well as ongoing industry participation. In addition to reviewing actual 2023 expenditure on building climate change capability against budget, CCESG also supported the finalisation of the investment allocated to support our customers' transition in 2024. The Climate Centre of Excellence supports delivery of our climate ambition, complementing capabilities across NatWest Group by providing thought leadership, delivering engagement and exploring opportunities for collaboration.

Embedding climate in franchise governance: Home Energy Hub

Our Home Energy Hub is a build on our existing Home Energy Plan, which launched in December 2022, and takes homeowners through the retrofit journey from education and awareness to in-home energy assessment, installation options and finance including government grants. At each step, homeowners can explore home improvement options with our strategic partners Vibrant, British Gas, TrustMark and Snugg.

The Home Energy Hub was presented to the Retail Climate Steering Committee in May 2023 to share key aims and previous research. This was followed by an overview of the user journey and aspirations in respect of partner journeys and prototypes of the tool in July 2023.

In August 2023, this was presented to CCESG to share with senior stakeholders across the bank to provide an overview along with budget requirements.

In September 2023, the Home Energy Hub proposition was presented for a final time to the Retail Climate Steering Committee. The presentation included a hub demo along with future illustrations of the tool.

The Home Energy Hub then completed our standard retail product governance process before being launched in November 2023.

For more details of the Home Energy Hub and other activities supporting decarbonisation of our property related sectors refer to page 22.

How Our Energy Hub works

1. Get your free digital Home Energy Plan



2. Book a discounted in-home energy assessment



3. Browse possible funding options



4. Find tradespeople for your work





Serving our customers every day

Estimated emissions and associated methodologies

- 5.1 Climate transition plan: targets and ambitions
- 5.2 Financed emissions and progress towards our SBTi targets
- 5.3 Estimates of financed emissions – data quality
- 5.4 Estimates of facilitated emissions from corporate bond underwriting

For details of methodologies and data limitations, refer to the 2023 Sustainability Basis of Reporting.

5.1 Climate transition plan: targets and ambitions

Our ambition to be net zero by 2050 across our financed emissions, assets under management and our operational value chain is supported by our 2030 ambitions noted in the table below. In 2022 we published 2030 targets validated by the Science Based Targets initiative (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, refer to page 72 and our [2023 Sustainability Basis of Reporting](#) for details of these. Refer to sections 2 and 6 for details of key policies and dependencies to support the transition. 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	Assets under management	Our own operations	
Sectoral decarbonisation targets: Lending	Temperature alignment target: Lending and investment	Portfolio alignment and carbon intensity ambitions	Our operational value chain
<p>Science-based SBTi validated sectoral decarbonisation targets cover:</p> <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. Refer to section 5.2 for SBTi targets for in-scope sectors. 	<p>Science-based SBTi validated temperature rating targets covers:</p> <ul style="list-style-type: none"> Oil and gas (Scopes 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. 	<p>NatWest Group ambitions:</p> <ul style="list-style-type: none"> Portfolio alignment to net zero: Align 50% of Managed Assets to a net-zero trajectory by 2025. Portfolio alignment to net zero: Align 70% of Managed Assets to a net-zero trajectory by 2030. Carbon intensity: Reduce the carbon intensity of our equity and corporate fixed income holdings by 50% against a 2019 baseline. 	<p>SBTi targets:</p> <ul style="list-style-type: none"> Scope 1 and 2: A reduction in absolute Scope 1 and 2 GHG emissions by 50% by 2030, against a 2019 baseline. 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 baseline.
Methodology			
<p>SBTi targets methodology:</p> <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 UK Committee for Climate Change BNZ Pathways as well as IEA B2DS pathway aligned with SBTi guidance to estimate these targets. Refer to sections 5.2, 5.3 and the NatWest Group Sustainability Basis of Reporting for details of scenarios used, methodologies and limitations. 	<p>SBTi targets methodology:</p> <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. Refer to sections 5.2, 5.3 and the NatWest Group Sustainability Basis of Reporting for details of scenarios used, methodologies and limitations on lending and page 31 for further detail on Financial Institutions. 	<p>Portfolio alignment methodology:</p> <ul style="list-style-type: none"> Portfolio alignment targets measure the percentage of fund managers (whose funds are held in our portfolios) 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 funds. By 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. Refer to section 6 for further details. 	<p>SBTi targets methodology:</p> <ul style="list-style-type: none"> Target alignment has been calculated using quantitative indicators, and reviewed regularly for credibility and impact. Our operational value chain excludes processing of our sold goods, as our products are not manufactured. Included within our reporting is emissions from assets we lease and occupy, as well as business segment emissions. Refer to section 2.7 for further details.

5.2 Financed emissions and progress towards our SBTi targets

Estimates of financed emissions

During 2023, we have continued to enhance our measurement capabilities and scope of financed emissions models. Our work was guided by the availability of methodologies for estimating financed emissions, most notably from the SBTi and PCAF – refer to the [NatWest Group Sustainability Basis of Reporting](#) for methodologies used. In addition to sector-level lending models, where measurement standards are more developed, we have estimated emissions for some lending and investment exposures on a collective basis. As a result, we have now analysed 90%⁽¹⁾ of our loans and investment exposure at 31 December 2022 (74% at 31 December 2019) comprising 80% modelled at a sector level and 20% modelled on a collective basis.

The table below shows NatWest Group’s estimated (i) absolute emissions, (ii) physical and economic emissions intensities, (iii) physical emissions intensity reduction estimates for 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, refer to section 2.3 for progress against SBTi targets. The table should be read in conjunction with section 7.1 and Risk factors included on pages 417-441 of the [2023 NatWest Group Plc Annual Report and Accounts](#). We continue to refine our estimates as we enhance our understanding, calculation methodologies and data. As detailed throughout this section, we have used a combination of methodologies to estimate these emissions. Absolute emissions and emissions intensities are published one year in arrears of our financial reporting date to allow time for appropriate data sourcing and review.

Sector	2022				2019				2030
	Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity	Economic emissions intensity ⁽²⁾	Scope 1 and 2 (MtCO ₂ e)	Scope 3 (MtCO ₂ e)	Physical emissions intensity	Economic emissions intensity	Physical emissions intensity reduction
Residential mortgages	2.8 ⁽¹⁾	-	38.4 kgCO ₂ e/m ² ⁽¹⁾	14 ⁽¹⁾	3.0	-	38.7 kgCO ₂ e/m ²	17	49% ⁽³⁾
Commercial real estate (secured)	0.3 ⁽¹⁾	-	51.5 kgCO ₂ e/m ² ⁽¹⁾	18 ⁽¹⁾	0.4	-	56.0 kgCO ₂ e/m ²	21	60% ⁽³⁾
Housing associations	0.1	-	52.3 tCO ₂ e/£m	6	0.1 ⁽⁸⁾	-	55.5 tCO ₂ e/£m ⁽⁸⁾	6 ⁽⁸⁾	-
Automotive manufacturing ⁽⁵⁾	-	0.5	258.6 gCO ₂ e/v-km	703	-	0.3	260 gCO ₂ e/v-km	1,362	24% ⁽³⁾
Automotive retail ⁽⁵⁾	1.0	-	-	304	0.9 ⁽⁷⁾	-	-	269	-
Transport	0.7	0.6	-	263	0.6	0.7	-	348	-
of which freight road ⁽⁵⁾	0.3	0.3	47.1 gCO ₂ e/t-km	356	0.1	0.2	36.7 gCO ₂ e/t-km	292	19% ⁽³⁾
of which passenger rail ⁽⁵⁾	0.1	0.1	74.3 gCO ₂ e/p-km	251	0.3	0.2	50.6 gCO ₂ e/p-km	976	42% ⁽³⁾
of which passenger road ⁽⁵⁾	0.3	0.2	111.8 gCO ₂ e/p-km	202	0.2	0.3	64.9 gCO ₂ e/p-km	221	31% ⁽³⁾
Aviation	0.7 ⁽¹⁾	-	-	569 ⁽¹⁾	1.8	-	-	2,122	28% ⁽⁴⁾
Electricity generation	0.7 ⁽¹⁾	-	103.7 kgCO ₂ e/MWh ⁽¹⁾	188 ⁽¹⁾	2.4	-	223 kgCO ₂ e/MWh	885	76% ⁽³⁾
Oil and gas	0.2 ⁽¹⁾	0.1 ⁽¹⁾	3.6 tCO ₂ e/TJ ⁽¹⁾	204 ⁽¹⁾	1.7	1.9	4.1 tCO ₂ e/TJ ⁽⁷⁾	736	38% ⁽⁴⁾
Waste	0.2	-	284.2 tCO ₂ e/£m	230	1.0	-	1,164 tCO ₂ e/£m	1,572	-
Agriculture – primary farming	3.4 ⁽¹⁾	-	1,860 tCO ₂ e/£m ⁽¹⁾	886	4.1	-	2,075 tCO ₂ e/£m	1,033	26% ⁽⁴⁾
Manufacturing	1.5	-	105.5 tCO ₂ e/£m	180	1.7 ⁽⁸⁾	-	125.4 tCO ₂ e/£m ⁽⁸⁾	212 ⁽⁸⁾	-
Construction	0.5	-	41.5 tCO ₂ e/£m	139	0.4	-	46 tCO ₂ e/£m	154	-
Retail	1.0 ⁽¹⁾	-	48.3 tCO ₂ e/£m ⁽¹⁾	156 ⁽¹⁾	1.1 ⁽⁸⁾	-	48.4 tCO ₂ e/£m ⁽⁸⁾	168 ⁽⁸⁾	-
Leisure	0.4 ⁽¹⁾	-	53 tCO ₂ e/£m ⁽¹⁾	54 ⁽¹⁾	0.5 ⁽⁸⁾	-	68.2 tCO ₂ e/£m ⁽⁸⁾	67 ⁽⁸⁾	-
Other ⁽⁹⁾	4.0	-	-	51	-	-	-	-	-
Total NatWest Group (excluding AUM)⁽⁶⁾	17.5	1.2	-	54	Footnotes for this page can be found on the following page.				

- During 2023, we continued to work on enhancing availability of customer data which has resulted in an improvement in data quality scores as noted in section 5.3. In addition, emissions methodologies continued to evolve. Emissions and intensity estimates for 2022, included in the table above, have been estimated based on updated data sources and enhanced methodologies. As a result, in some cases movements between 2019 and 2022 emissions and emissions intensities may not always reflect changes in customer activities.
- The decrease in electricity generation reflects increased funding of renewable electricity generation resulting in reduction in absolute emissions by 1.7MtCO₂e and physical emissions intensity by 54%.
- The decrease in absolute emissions and emissions intensity within the oil and gas sector reflects the decrease in emissions intensity in on-balance sheet lending between 2019 and 2022, as well as enhanced availability of customer emissions data resulting in an improvement in scope1 and scope 2 PCAF score from 4.5 to 3.3 and scope 3 PCAF score from 4.6 to 3.6.
- The increases in absolute emissions and emissions intensities in the transport sector, and the decreases in waste and aviation sectors, reflect updates to customer data availability which has resulted in estimates now being more closely aligned to customer activities.

(*) Within the scope of EY assurance. Refer to page 6.

5.3 Estimates of financed emissions

Data quality

Estimates of financed emissions – data quality

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.

We continue to engage with customers, stakeholders and data vendors, and participate in wider initiatives to help enhance the availability of climate-related data. During 2023, we began supplementing our own estimates of financed emissions with emission estimates provided by a data vendor, use of which is limited to situations where, based on PCAF score, no better estimation approach is available. These vendor estimates are classified as having a PCAF Score of 4, refer to our [2023 Sustainability Basis of Reporting](#) for details on methodology used for estimation. 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. The table below shows the percentage of exposures in each sector and related PCAF score.

Sector ⁽¹⁾	2022					2019
	PCAF 1 and 2: Published emissions (%)	PCAF 3: Production data (%)	PCAF 4: Revenue estimated emissions (%)	PCAF 5: Sector estimated emissions (%)	Overall data quality score	Overall data quality score
Residential mortgages	-	63	-	37	3.7 ⁽¹⁾	4.1
Commercial real estate (secured)	-	19	-	81	4.6 ⁽¹⁾	5.0
Housing associations	7	-	16	77	4.6	4.6 ⁽²⁾
Automotive manufacturing Scope 3	-	46	-	54	4.1	3.3
Automotive retail	33	-	54	13	3.5	3.5 ⁽²⁾
Transport	5	-	56	39	4.3	4.2
Aviation	37	-	36	27	3.5 ⁽¹⁾	4.5
Electricity generation	8	-	38	54	4.4 ⁽¹⁾	3.4
Oil and gas Scope 1 and 2	48	-	24	28	3.3 ⁽¹⁾	4.5
Oil and gas Scope 3	28	-	52	20	3.6 ⁽¹⁾	4.6
Waste	29	-	39	32	3.7	4.5
Agriculture – primary farming	-	-	57	43	4.4 ⁽¹⁾	4.4
Manufacturing	15	-	37	48	4.2	4.2 ⁽²⁾
Construction	6	-	34	60	4.5	4.7
Retail	20	-	28	52	4.1 ⁽¹⁾	4.3 ⁽²⁾
Leisure	7	-	33	60	4.5 ⁽¹⁾	4.3 ⁽³⁾
Other financed emissions models	9	-	21	70	4.5	
Total NatWest Group (excluding AUM)	4	37	10	49	4.0	

Footnotes for this table

- The PCAF data quality score is based on the approach taken to estimate Scope 1 and Scope 2 emissions within a given sector, with the following exceptions:
 - Electricity generation: The emissions estimation methodologies differs between Scope 1 and Scope 2. The weighted average data quality score has been calculated using the least favourable data quality score of the two estimation methodologies. If calculated using the Scope 1 data quality score only, the resultant PCAF weighted average data quality score would be approximately 3.2.
 - For the oil and gas and automotive manufacturing sectors the Scope 3 PCAF weighted average data quality score has been calculated separately in line with PCAF methodology.
 - Sovereign model PCAF scores are excluded from this table.
- To enable a comparison to 31 December 2022 data, 2019 data points for sectors not previously disclosed have been estimated using balance sheet data from 31 December 2019 and emissions intensities from 2022, with a further allowance made for Office of National Statistics UK industry carbon intensity changes between these time frames.

Footnotes for page 68

- The PCAF standard does not currently outline an estimation approach for short-term assets (such as nostro and repurchase agreements), quasi sovereign assets (e.g. local authorities) and consumer lending other than mortgages and motor vehicle loans. As such these products are currently excluded from our financed emissions estimation. Loans and investments relate to on-balance sheet gross exposure, accounted at amortised cost (including finance leases) and FVOCI.
- The weighted average economic emissions intensity based on disclosed Scope 1, 2 and 3 estimated emissions in this table.
- Physical emissions intensity reduction targets validated by SBTi, as science-based.
- Sectors within the scope of temperature rating targets validated by the SBTi as science-based. For oil and gas and agriculture, SBTi SDA methodologies were under development at the time of target setting.

- For the automotive manufacturing sector, only Scope 3 emissions are considered in the estimation of physical intensity. For the transport sector, all scopes are included in the estimation of physical intensity. Physical intensity is not shown for automotive retail and aviation sectors as methodologies are in the process of being developed.
- During 2023 NatWest Group has developed a PCAF aligned sovereign debt model for the estimation of financed emissions. NatWest Group principally holds debt securities issued by sovereign counterparties for liquidity management and to meet regulatory requirements in different jurisdictions in which the bank operates. These balances can vary significantly over time and NatWest Group has limited ability to influence the climate outcomes of these nations. Because of this, we have not included estimated financed emissions relating to our initial sovereign modelling within total NatWest Group estimation disclosed above. Initial estimates of sovereign financed emissions are 4MtCO₂e at 31 December 2022 and 12.1MtCO₂e at 31 December 2019.

- During 2023, the approach to sourcing production intensive data for oil and gas extraction companies has been enhanced and the same logic retrospectively applied.
- To enable comparison, 2019 data for sectors not previously disclosed has been estimated using exposure data from 31 December 2019 and emissions intensities from 2022 with a further allowance made for Office of National Statistics carbon intensity changes.
- Other represents estimated financed emissions on 22% of our in-scope loans and investments (23% estimated financed emissions) as at 31 December 2022, primarily relating to collective estimation approach where a common methodology has been applied to sectors and sub-sectors not individually analysed in the table. 3.6MtCO₂e collective estimates includes 1MtCO₂e for services-related activities, 0.8MtCO₂e for transport-related activities, 0.5MtCO₂e for agriculture-related activities and 0.4MtCO₂e for natural resources-related activities. In addition, other includes emissions for: cement (0.2MtCO₂e), shipping (0.1MtCO₂e) and water (0.1MtCO₂e).

5.3 Estimates of financed emissions continued

Data limitations

Overview of data limitations

A common theme across all sectors relates to data limitations, including lack of published emissions data and granularity of customer information. As a result, the estimates included in this section and section 2.4 are premised on use of the assumptions, extrapolations or aggregation at sub-sector 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. Refer to page 69 for a summary of our PCAF data quality scores by sector. Specific limitations on the estimation of financed emissions and managed emissions include:

- **Availability, accuracy and comparability of customer data:** While we have estimated emissions for on-balance sheet lending and investment as at 31 December 2019 onwards annually, published customer data may not always correlate to these dates. This may result in a lag in reflecting any changes in customer circumstances within NatWest Group’s financed and managed emissions. Where customer emissions data is available, we are unable to test alignment with GHG emissions protocol. Customers’ operational structures may result in different categorisation of activities and emissions.
- **Susceptibility to variation year on year:** We use customer emissions, production and revenue data to estimate financed and managed emissions. Customer revenue and production are susceptible to change for various reasons such as global events. As customers’ disclosures develop to include their emissions, the reliance on other estimation processes will reduce. In the meantime, variation in emission metrics may not always reflect changes in customers’ emissions, but could result from changes in other factors, such as new data sources used to estimate emissions in the absence of externally published customer emissions.
- **Lack of industry comparability:** Emissions intensity estimates are not necessarily comparable across different financial institutions as they are based on data related to NatWest Group customers, our methodology and data sources.
- **Inconsistent characteristics for extrapolated portfolios:** Where we have only been able to source data for a subset of our portfolio, we may use averages from this subset to calculate emission metrics for the remainder

of our portfolio. The characteristics of each part of the portfolio may be sufficiently different that this extrapolation is inaccurate.

- **Complex corporate structures:** In some circumstances we may lend to a legal entity within a corporate group whose financial metrics and emissions are either unavailable or not representative of the nature of a Trading entity within that sector, for example, intermediary holding companies or entities performing a treasury function for the Group. This can lead to emission metrics being inconsistent with their peers. We are looking at ways to incorporate data for the entity’s parent where appropriate in future years.
- **Double counting of Scope 3:** A limitation of the PCAF standard is that of ‘double counting’, whereby the Scope 1 or 2 emissions for a given sector may correspond to Scope 3 for another sector. Our customers do not disclose who their suppliers or customers are, 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, both in terms of Scope 3 coverage (not all Scope 3 categories are mandatory for disclosure) and generally differences in interpretation of the GHG protocol. 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”.
- **Reliance on third-party data and estimates of emissions:** Where we have chosen to use third-party data or estimates of emissions, we gain comfort by reviewing available data or estimation documentation and performing relevant data checks. However, by nature we do not have full knowledge of the methodology, matching processes, data quality or operation of this externally provided information, and cannot therefore exert direct control. Examples of this include the provision or application of EPC certificates, and the provision of revenue-based estimates of financed emissions.



For further details of methodology and data limitations, refer to our 2023 Sustainability Basis of Reporting

5.3 Estimates of financed emissions continued

Methodologies, standard setters and scenario selection

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 underpinned development of our Climate transition plan and ongoing identification of opportunities to support our customers' transition to net zero.

Scenarios are used in a number of key ways and we have outlined which are used where and the importance of them. All scenarios used are recognised in the industry and developed by independent and respected organisations to assess forward-looking pathways for sectors.

SBTi target setting: We 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. 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 at the point of assessment. IEA NZE was selected for oil and gas (Scope 3 emissions) as it is the only scenario to contain this pathway. For other sectoral pathways it is less ambitious for most of the sectors and therefore not widely used. We will continue to assess updates in scenarios as they 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 in the NatWest Group Sustainability Basis of Reporting 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 our Climate transition plan, included in section 2. The UK CCC and IEA scenarios when selected had similar assumptions on technology deployment and policy support, so this approach enabled NatWest Group to consider the impact of its financing and further support we can provide to customers to support their transition to net zero.

Climate risk scenario analysis: Our internal climate scenario analysis, including that 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, including using NGFS⁽¹⁾ produced scenarios which satisfy the 'well below 2°C' requirement of the 2015 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 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.

(1) There is increasing concern acknowledged by the NGFS consisting of 114 central banks, that model scenarios, including those provided by central banks and supervisory bodies and, therefore, used by NatWest Group are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible 'tipping points' that could lead to large, irreversible changes in the climate system (for example the melting of permafrost or the Greenland and Antarctic ice sheets).



5.3 Estimates of financed emissions continued

Scenario selection

The table below provides an overview of the standards, methodologies and scenarios utilised as inputs for assessing financed 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.

Sector model	Financed emissions standard	Scenario	Approach used to estimate physical emissions intensity in 2030	Target setting approach ⁽¹⁾	Intensity metrics used to estimate reduction required by 2030
Residential mortgages	PCAF	IEA ETP B2DS (World)	SDA	SDA	kgCO ₂ /m ²⁽²⁾
Commercial real estate (secured)	PCAF	UK CCC BNZ	SDA	SDA	kgCO ₂ /m ²⁽²⁾
Housing associations	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Automotive manufacturing	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ e/vkm ⁽⁴⁾
Automotive retail	PCAF	IEA ETP B2DS (World)	SDA	TR	gCO ₂ e/vkm ⁽⁴⁾
Transport				SDA	
of which Freight road	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /tkm ⁽⁵⁾
of which Passenger rail	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /pkm ⁽⁶⁾
of which Passenger road	PCAF	IEA ETP B2DS (World)	SDA	SDA	gCO ₂ /pkm ⁽⁶⁾
Aviation	PCAF	IEA ETP B2DS (World)	ACA ⁽⁷⁾	TR	n/a ⁽⁷⁾
Shipping	PCAF	IEA ETP B2DS (World)	ACA ⁽⁷⁾	TR	n/a ⁽⁷⁾
Electricity generation	PCAF	UK CCC BNZ	SDA	SDA	kgCO ₂ /MWh ⁽⁸⁾
Oil and gas – Scope 1 and Scope 2	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/TJ ⁽⁹⁾
Oil and gas – Scope 3	PCAF	IEA NZE	ACA ⁽⁷⁾	TR	n/a ⁽¹⁰⁾
Waste	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Iron and steel	PCAF	IEA ETP B2DS (World)	SDA	SDA	tCO ₂ e/tonne ⁽¹¹⁾ Iron and steel
Aluminium	PCAF	UK CCC BNZ	SDA	SDA	tCO ₂ e/tonne ⁽¹¹⁾ Alum
Agriculture – primary farming	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Manufacturing	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Construction	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Cement	PCAF	IEA ETP B2DS (World)	ACA ⁽⁷⁾	SDA	tCO ₂ e/tonne ⁽¹¹⁾ Cement
Retail	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Leisure	PCAF	UK CCC BNZ	SDA	TR	tCO ₂ e/£million ⁽³⁾
Sovereign	PCAF	n/a ⁽¹²⁾	n/a ⁽¹²⁾	n/a ⁽¹²⁾	n/a ⁽¹²⁾

(1) Sectoral Decarbonisation Approach (SDA), Absolute Contraction Approach (ACA), Temperature Rating (TR).
 (2) kgCO₂e/m² is kilograms of carbon dioxide equivalent per square metre of financed floor space.
 (3) tCO₂e/£million is tonnes of carbon dioxide equivalent emitted per million of revenue.
 (4) gCO₂e/vkm is grams of carbon dioxide equivalent per kilometre travelled over the lifetime of a vehicle financed by NatWest Group.

(5) gCO₂/tkm is grams of carbon dioxide equivalent per kilometre which one tonne of freight financed by NatWest Group travels.
 (6) gCO₂/pkm is grams of carbon dioxide equivalent per kilometre travelled by one passenger, based on the travel activity financed by NatWest Group.
 (7) 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.
 (8) 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.

(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 manufactured.
 (12) As previously stated, we have developed a sovereign debt model in line with the PCAF recommendations. However, given the lack of direct influence we have over national emissions, we have at this point not sought to directly consider sovereign emissions within our transition plans or target setting.

5.4 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.

NatWest Group’s capital markets business for corporate counterparties, with which we conduct underwriting activities, is generally driven by existing lending relationships. Facilitated emissions will fluctuate year-on-year subject to the underwriting mandates and changes in those lending relationships. In 2023, 21% of total bond underwriting⁽¹⁾ related to corporate bond underwriting activities, with estimated absolute emissions of 1.5 MtCO₂e.

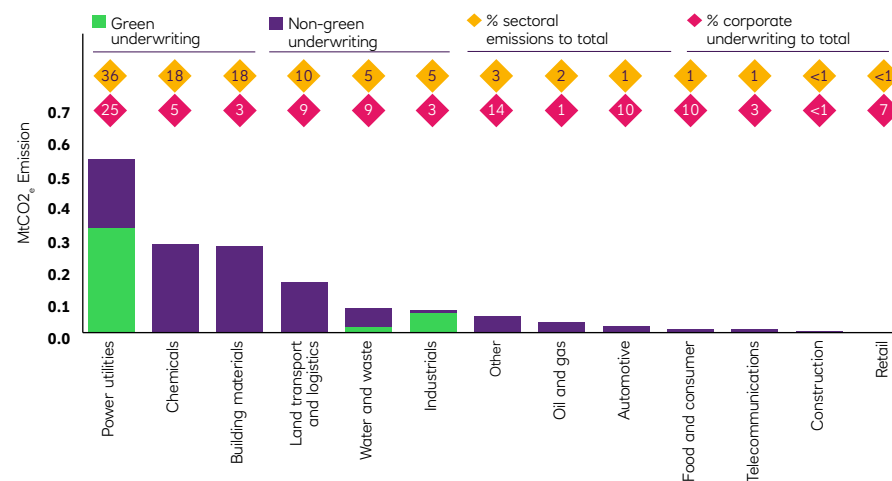
We used recommendations included in the September 2022 PCAF consultation paper⁽³⁾ to assess facilitated emissions. We are working to assess the requirements of the PCAF ‘Accounting and reporting standard for facilitated emissions for capital market instruments’⁽²⁾, published in December 2023.

For 2023 reporting, published facilitated emissions relate only to capital markets’ corporate bond underwriting activities for public debt issuance⁽⁴⁾ and include green bonds as defined by the ICMA’s Green Bond Principles or the European Green Bond Standard, to show the difference between conventional and green bonds as alluded to by PCAF, while being consistent with 2022 disclosures. In estimating facilitated emissions, we expect green bonds to have a reduced emissions intensity. However, given that this calculation and methodology has yet to be developed we have not attributed a lower emission intensity. Reported emissions are based on 100% weighting and absolute emissions versus percentages utilised in 2022. Absolute amounts shown are estimates and may be subject to change given changing baselines over time.

- Estimated facilitated emissions are most significant in the power utilities sector, making up 36% of the total. It is important to note that more than 50% are green bonds.
- The second and third highest contributing sectors are the chemical and building materials industries, while our total underwriting in these sectors was relatively small (5% and 3% respectively). The remaining ten sectors contributed 29% of estimated facilitated emissions while representing more than half of total corporate bond underwriting (67%).
- Oil and gas was only 1% of total corporate bond underwriting volumes and constituted 2% of facilitated emissions.

(1) Where NatWest Group is a facilitator (active or passive) as defined by the PCAF consultation paper⁽³⁾ and published standard⁽²⁾.
 (2) [Facilitated emissions: the global GHG accounting and reporting standard, part B](#)
 (3) [PCAF launches public consultation on Capital Markets Facilitated Emissions methodology](#)
 (4) Includes public debt: all types of bonds issued for general purposes. Facilitated debt investments in private companies (including private credit), public equity: common stock (IPOs and follow-on issuances) and preferred shares and facilitated equity investments in private companies (including private placements) are not included, since this is not business that we undertake. Syndicated loans are within the scope of PCAF’s Facilitated Emissions Standard. However, where these remain on our balance sheet we have included them in our financed emission estimates and excluded them from estimated facilitated emissions.
 (5) For the year ended 31 December 2023, the NatWest Group CSFFI criteria published in December 2022 has been used to determine the assets, activities and companies that are eligible to be counted.
 (6) We aim to estimate facilitated emissions using the latest data available, recognising there may be a lag between the availability of emissions data and the date of record for reporting. As a consequence of this lag, more recent changes in a counterparties activities may not be reflected in the estimate of facilitated emissions. We continue to refine our estimates as we enhance our understanding, calculation methodologies and data. Also, methodologies to calculate emissions for certain sectors are still under development. Based on these limitations, we expect our estimates to change as we improve the granularity and coverage of customer climate data and develop methodologies further.

2023 estimated facilitated emissions attributed to NatWest Group, split between conventional and green bond underwriting



Methodology used for estimation

1. The PCAF consultation paper⁽³⁾ recommended splitting responsibility among the transaction lead managers (passive and active) based on volumes, which we source from league tables. This determines the proportion of the ‘facilitated’ part of the transaction each facilitator takes responsibility for, thus providing the volume against which facilitated emissions is estimated. Co-managers are not counted and therefore such volumes are not taken into consideration. The 2023 PCAF standard⁽²⁾ allows the use of either league tables based on fees or the value of the volume.
2. We followed both the PCAF consultation paper⁽³⁾ and published standard⁽²⁾ to define an issuer as solely corporates that issue a debt or equity capital markets instruments. Financial institutions, sovereigns, supnationals and agency issuers, as well as securitised products, are out of scope both for the guidance in the consultation paper⁽³⁾ and the published PCAF standard⁽²⁾.
3. To align with 2022 reporting, we applied a 100% weighting factor for the emissions estimation for the corporate bond underwriting activities. The PCAF standard⁽²⁾ requires a weighting of 33%.
4. In line with the PCAF consultation paper⁽³⁾ and published standard⁽²⁾, to estimate greenhouse gas emissions, we sourced customer-level emissions data, where possible. If customer-level data is unavailable, emission sector averages (with a PCAF data quality score of 5) are used for emission intensities from 2022 and applied against 2023 underwriting volumes⁽⁶⁾.
5. Currently, there is not a commonly agreed methodology for measuring the carbon footprint of green bonds. We show the breakdown of conventional versus green bonds to highlight the expected difference of facilitated emissions associated with the conventional versus green bond underwriting. Sustainable-linked and sustainability bond activities are treated as conventional bonds for the purpose of estimating and reporting on facilitated emissions⁽⁵⁾.



Serving our customers every day

Assets under management

How climate-related risks and opportunities are captured in our investment strategy, including qualitative and quantitative considerations within investment decision-making for assets under management.

- 6.1 Asset management: approach to climate-related disclosures
- 6.2 Asset management and net zero
- 6.3 AUM Climate transition plan
- 6.4 AUM risk management
- 6.5 AUM governance
- 6.6 Metrics and methodologies

6.1 Asset management: approach to climate-related disclosures

The following disclosure, contained within section 6 of the 2023 NatWest Group Climate-related Disclosures Report, is intended to align with the Financial Conduct Authority’s ESG sourcebook requirements for asset managers and certain FCA-regulated asset owners to make disclosures consistent with the recommendations of the TCFD.

Disclosures in this section build on sections 1-5 of this report, with specifics related to our Asset Management business, including strategy, risk management, governance as well as metrics and targets, set out in the following pages.

Reporting scope⁽¹⁾

The legal entities whose assets under management are within the scope of this report are Royal Bank of Scotland plc, Coutts & Co (Coutts), RBS Collective Investment Funds Limited (CIFL), Royal Bank of Scotland International Limited, National Westminster Bank plc. References to ‘Asset Management’, ‘we’ or ‘us’ in section 6 of this report are made in the context of assets under management for these legal entities, unless stated otherwise.

(1) In June 2023, NatWest Group acquired workplace savings and pension provider Cushon Group. Assets under management associated with Cushon Group (£85.9 million in assets as at 31 December 2023) do not form part of this report. In addition, the assets of the pension provider, held in the Cushon Master Trust and regulated by The Pensions Regulator, do not form part of this report. The Trustees of the Cushon Master Trust publish a separate climate-related disclosures.

2023 update and reference

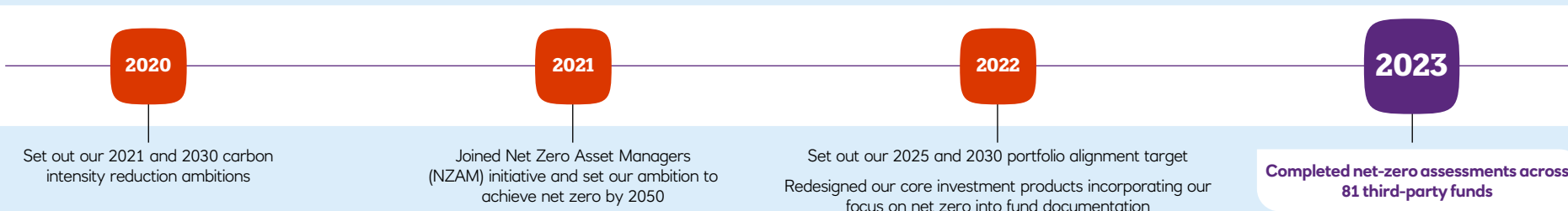
TCFD pillar			
Governance	Strategy	Risk management	Metrics and targets
Climate decisions are subject to NatWest Group governance with additional governance and oversight processes tailored to Asset Management. Refer to sections 4.2, 4.3 and 6.5 .	Our Asset Management climate strategy and Climate transition plan align with NatWest Group’s climate ambitions. Our AUM Climate transition plan focuses on developing and identifying funds that we deem to be on a credible pathway to achieve net zero. Portfolio alignment and weighted average carbon intensity (WACI) are used to assess how funds are managing short and long-term climate-related risks and opportunities. Refer to sections 1.2, 2.1, 2.2, 2.3 and 6.2 and 6.3 .	Asset Management aligns with NatWest Group’s iterative, multi-year approach towards full integration of climate risk management. In addition, we have specific processes tailored towards the identification, assessment and management of material climate-related risks influencing our investment strategy. Our engagement activity with investee companies encourages better disclosure and practices regarding climate-related risks to improve data availability. Refer to sections 3.1, 3.2, 6.3 and 6.4 .	Developed tools to estimate greenhouse gas emissions for our AUM for the first time, as well as portfolio alignment and WACI for our Managed Assets. Refer to sections 5.3, 6.3 and 6.6 .

We believe that the disclosures related to assets under management, set out in section 6 of this report, including any cross-referenced disclosures in the remainder of this report, are consistent with the requirements set out in Chapter 2 of the Financial Conduct Authority’s Environmental Social and Governance Sourcebook.



Mohammad Kamal Syed
Chief Executive Officer, Coutts & Co

AUM Climate transition plan – the journey so far:



6.2 Asset management and net zero

The Asset Management Centre of Excellence, within Coutts (Asset Management), was established to provide investment products and services to NatWest Group customers.

As an asset manager, we are responsible for the allocation, management and oversight of capital to create long-term value for our customers. In addition to more traditional risk measures, we recognise ESG, and more specifically climate change, as a financial risk and are working to identify investment opportunities that help us manage transition, physical and liability risks within our funds and portfolios.

We believe factoring ESG, and specifically climate considerations, into our investment strategy enables us to identify opportunities and reduce the potential risks associated with climate change. We aim to reach net zero by 2050 and have two interim ambitions:

- We aim to align 70% of Managed Assets to a net-zero pathway by 2030.
- We aim to reduce the WACI of our equity and corporate fixed income holdings by 50% by 2030 against a 2019 baseline. Further detail is outlined on page 77 and page 86.

We continue to integrate climate into our investment decisions and product design, while seeking to align to our customer’s investment mandates, see page 83.

In 2022, we set portfolio alignment targets and developed our initial Climate transition plan. This included three key levers: aligning investments to net zero, voting and engagement and finally, limiting our exposure to carbon intensive activities. More details of our AUM Climate transition plan approach can be found on page 77.

The Asset Management investment offering is grouped across:

- **Managed Assets** are those which Asset Management invest on our customers’

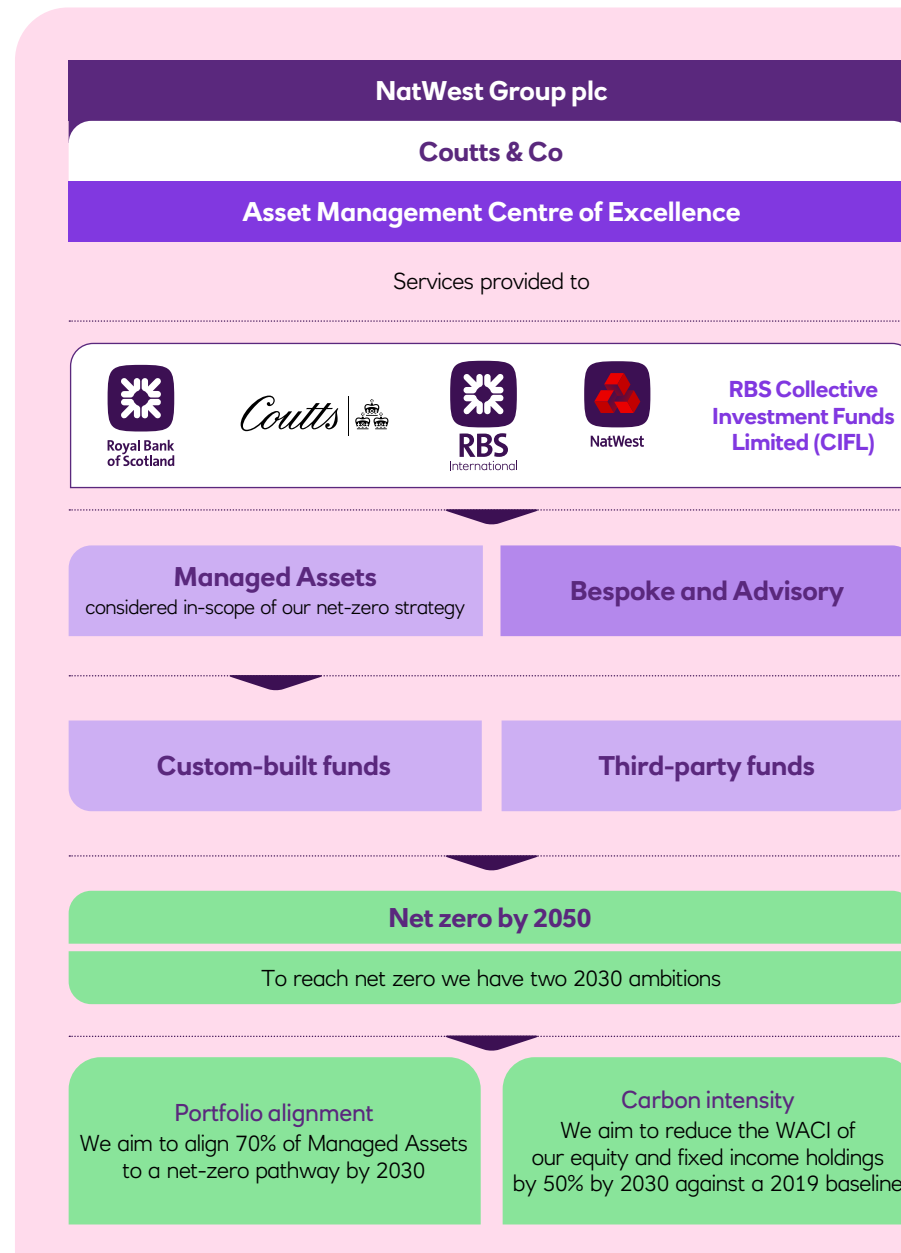
behalf and are included within our ambition to be net zero by 2050. It includes our Coutts Managed Funds, Personal Portfolio Funds and Discretionary Portfolios.

- Our **Bespoke** offer applies to customers investing >£10m and provides strategic asset allocation specific to individual requirements.
- **Advisory** services support customers in their investment decisions by providing specialist investment advice and in-house research.

Total AUM was £31.7 billion as at 31 December 2023. We consider our Managed Assets (representing 84% of total AUM) to be in-scope for our 2030 portfolio alignment target and WACI ambition.

Bespoke and advisory services are excluded from our interim 2030 target and ambition as these assets are subject to customer-specific conditions and we do not have full discretion over the net-zero pathway of these investments. We aim to engage with bespoke and advisory customers to bring these assets within scope of our net zero by 2050 ambition.

Our Managed Assets are invested in custom-built and third-party funds, with limited direct exposure to equities and bonds. The custom-built funds are managed via our strategic relationships where Asset Management defines the investment parameters and ESG policies. While we do not define the investment parameters or ESG policies of third-party funds, we assess their climate strategies as part of our net-zero investment framework and consider responsible investing in our fund due diligence process, refer to page 77.



6.3 AUM Climate transition plan

Our progress in 2023

Portfolio alignment

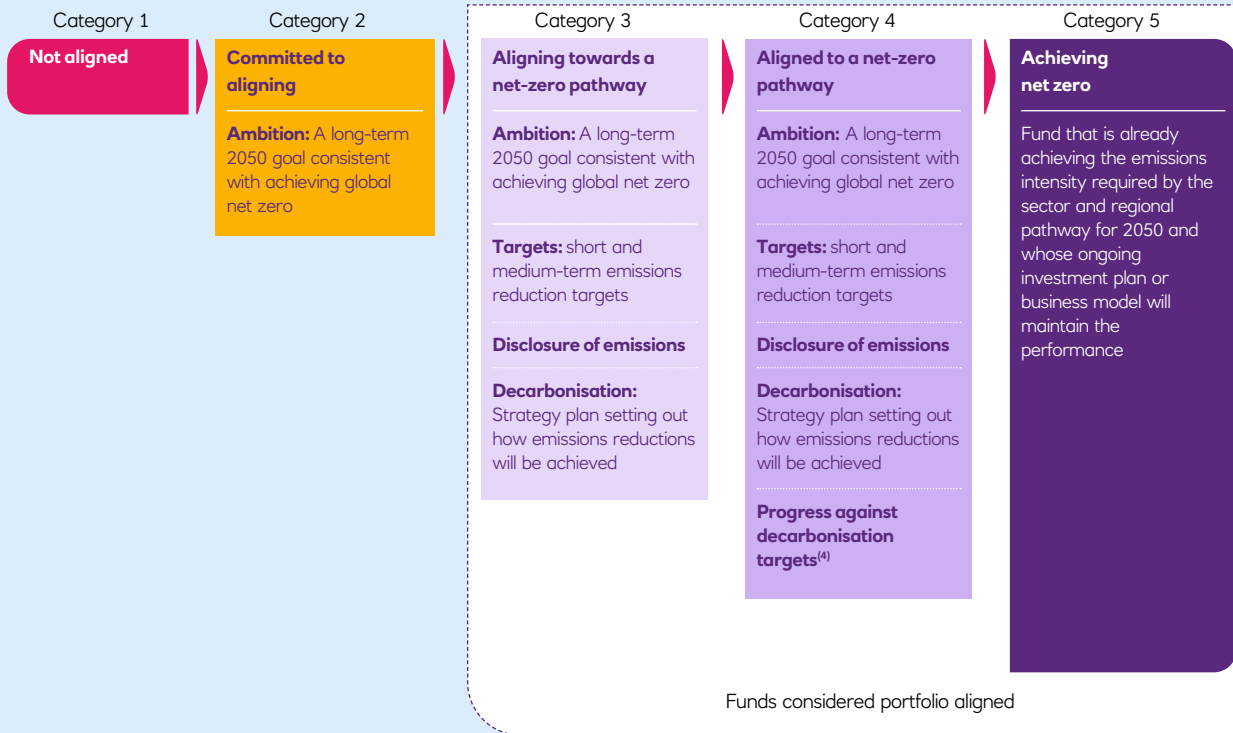
Our portfolio alignment metric, based on the Paris Aligned Investment Initiative (PAII) net-zero investment framework, shows the extent to which funds are deemed to be achieving, aligned or aligning to net zero. The metric combines qualitative and quantitative, backward and forward-looking information to assess each fund that we hold in our Managed Assets. Portfolio alignment forms part of our overall fund due diligence and is a factor in our investment decision-making process.

Our net-zero investing framework, designed in 2022, includes our net zero questionnaire, which sources data from fund managers to assess the credibility of their net-zero strategy, related commitments and progress made against these. The output of this questionnaire enables us to score the fund against our portfolio alignment measurement criteria from 1 to 5, with 1 being 'not aligned' and 5 being 'achieving net zero'. For a fund to contribute to our portfolio alignment target it must be classified in category 3, 4 or 5. To calculate the portfolio alignment we calculate the AUM total across all funds with a score of 3, 4 or 5 and divide this by the total value of all Managed Assets.

In 2023, we completed assessments across 81 funds and developed our first measurement of portfolio alignment. **As at 31 December 2023, 49% of funds within our Managed Assets were considered to be portfolio aligned⁽¹⁾.**

From a stewardship perspective, we seek to understand the manager's responsible ownership approach using voting and engagement statistics, by thematic breakdown, with examples to evidence. Using these responses and ongoing dialogue, we can challenge fund managers on their climate strategy and implementation plans to encourage better practice.

The chart below shows our net-zero investment framework, which is used to determine portfolio alignment.



We recognise that addressing climate change requires collective action from asset managers. In 2023, we delivered a seminar to members of the Institutional Investors Group on Climate Change (IIGCC) on how we had implemented a net-zero investment framework for a fund-of-funds asset manager.

Weighted average carbon intensity (WACI)

We set an ambition to reduce the WACI of the equity and corporate fixed income of our Managed Assets by 50% by 31 December 2030, compared to a 31 December 2019 baseline. **As at 31 July 2023⁽²⁾ WACI has decreased by 45%, from 166 tCO₂e/US\$m in 2019 to 92 tCO₂e/US\$m⁽³⁾.**

We use WACI to measure long-term trends within our Managed Assets and to validate our investment process over more extended time horizons, rather than an input into our investment decision-making process. As this metric is backward-looking, sensitive to market movements and subject

to data quality challenges, this is not always a clear reflection of our investment decisions.

We calculate WACI to estimate the greenhouse gas (GHG) emissions of our Managed Assets. We have chosen to use a relative metric as this is not influenced by fluctuations in our total Managed Assets.

To better understand the drivers of the decrease in WACI, we also looked at the change in WACI over the same measurement period for our investable universe⁽⁵⁾, as represented by the MSCI All Countries World Index, which measures global equity performance across developed and emerging markets. We found that the reduction in WACI can be attributed mainly to the companies in our investable universe reducing their carbon intensities. The remainder of this decrease in WACI can be attributed to our own actions, such as fund selection and product design changes within our custom-built funds.

(1) Portfolio alignment covers equity, corporate fixed income, and government bond asset classes.

(2) Equity and corporate fixed income values as at 31 July 2023. Carbon emissions have been taken from 31 December 2022.

(3) WACI coverage includes equities and corporate fixed income while government bonds are excluded.

(4) Progress against decarbonisation targets is ideally at a level of around 7% per annum, as this number is sufficient to deliver a 50% carbon reduction.

(5) 'investable universe' refers to the range of investments we can choose to include in our funds and portfolios.

6.3 AUM Climate transition plan continued

Scope and approach

In 2022, we developed the initial iteration of our Climate transition plan, identifying three levers that could contribute to our 2030 ambitions: increasing our allocation to net-zero aligned products, voting and engagement activity, and limiting our exposure to carbon intensive activities. In 2023, we focused on modelling the impact of different allocation decisions on progress against our 2030 ambitions, while looking qualitatively at the role that voting, engagement and exclusions play. We also set out three narrative scenarios that make assumptions about industry adaptation of net zero and product availability. This builds on NatWest Group’s strategy set out on page 4.

Context

Diversification across asset classes, sectors and countries plays an important role in our ability to provide suitable products for a broad range of investors, helping us manage risks such as liquidity and volatility. Our Managed Assets are predominantly invested in funds and have limited direct exposure to equities and bonds. Noted below are key external dependencies in supporting the net-zero 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 capacity to meet our allocation requirements.
- 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.
- Our Climate transition plan is heavily reliant on our assumptions around the required rate of decarbonisation (for WACI) and on what constitutes a credible net-zero pathway (for portfolio alignment). This means that any changes in assumptions can have a material impact on the outputs of our transition plan.

Overview of our selected levers

Covered by the transition plan

- **Fund selection:** We believe that funds acting on climate change could generate long-term sustainable returns provided they are actively managing climate-related risks and acting on climate-related opportunities. For our Climate transition plan this means:
 - **Change fund selection:** Select fund managers that are already aligning to a net-zero pathway;
 - **Encourage fund availability:** Select fund managers with a potential to align to a net-zero pathway;
 - **Product design/redesign:** Develop our custom-built funds to decarbonise over time and align to a net-zero pathway.

- **Voting and engagement:** Part of our role as a globally diversified investor is to encourage companies to increase the speed at which they are reducing their emissions and investing in climate solutions. Where we invest in third-party funds, working with fund managers to align their products to a net-zero pathway forms a core part of our net-zero strategy. We see active engagement and, in respect to our custom-built funds, exercising our voting rights as a critical lever to help drive positive change within companies while also mitigating risks that stem from climate-related issues.

- **Exclusions:** There are certain investments where we consider engagement is unlikely to be effective and, as a result, these are excluded from our investment universe subject to revenue thresholds. Exclusions include thermal coal extraction and energy generation, tar sands, Arctic oil, gas exploration, controversial weapons and more. Further information can be found on page 81.

2023 work to develop the Climate transition plan and scenarios

Assessments using our portfolio alignment measurement criteria were used to estimate the expected percentage of portfolio alignment and reduction in WACI out to 2030.

We used three scenarios that reflect varying levels of action and industry progress around fund selection decisions and product availability:

- **Baseline:** We assume that there are no further allocations to net-zero aligned products and there is no increase in availability for these products. However, we assume that all funds that already contribute to our portfolio alignment score continue to do so and that they achieve a minimum 50% WACI decarbonisation by 2030 (compared to 2019 baseline).
- **Moderately optimistic:** Building on the baseline scenario we assume that funds that have made a commitment to net zero, as well as any third-party passive funds with an existing ESG methodology, will start contributing to our portfolio alignment score and will achieve a minimum 50% WACI decarbonisation by 2030. This scenario assumes limited changes to our fund selection but increased product availability in the market.
- **Highly optimistic:** In this last scenario we assume that all investments (except those that are deemed out of scope of our assessments) will contribute to our portfolio alignment score and will achieve a minimum 50% WACI decarbonisation by 2030. This scenario is reliant on a high level of changes to our existing asset allocation and on a significant increase in product availability in the market to allow us to carry out these asset allocation changes. The table below summarises the likelihood of our levers occurring under different scenarios.

	Baseline	Moderately optimistic	Highly optimistic
Changes to fund selection	Low	Low	High
Product availability	Low	Medium	High
Product design/redesign	Low	High	High

We will use the scenarios on a forward-looking basis to assess the likelihood of meeting our 2030 ambitions.

6.3 AUM Climate transition plan continued

Engagement and voting

Voting and engagement are two methods investors can use to influence and communicate with investee companies. Voting rights give the investor a voice on potential company changes and engagement enables a longer-term, active dialogue to encourage improved disclosure and practices related to climate-related risks management.

Asset Management applies a three-fold voting and engagement approach across collective initiatives, funds and directly with companies.

For collective engagement: we participate in several investor-led initiatives to support the transition to a net-zero economy including Climate Action 100+ and the Net Zero Asset Managers initiative.

For third-party funds: company engagement and voting is the responsibility of the respective fund managers. We have ongoing communication with fund managers to retain oversight and to ensure their policies are acceptable. We ask for voting and engagement records to understand how and where they have supported and voted against management.

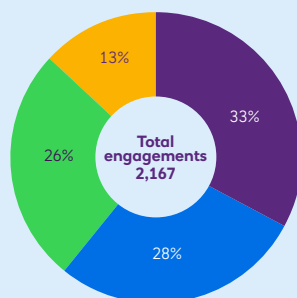
For companies (custom-built funds and direct equity holdings): we work with EOS at Federated Hermes (EOS) who have more than \$1.3 trillion in assets under advice and carry out active engagement efforts on our behalf. By aggregating our holding exposure, this provides an opportunity for increased efficacy of engagement across the companies we invest in. Engagement happens across four main themes:

- Environmental
- Social
- Governance
- Strategy, Risk and Communications.

Environmental engagement activity accounted for 33% of total engagements in 2023. Each theme is broken down into sub-categories, which highlight the nuances within the grouped theme – as shown in the diagram on the right.

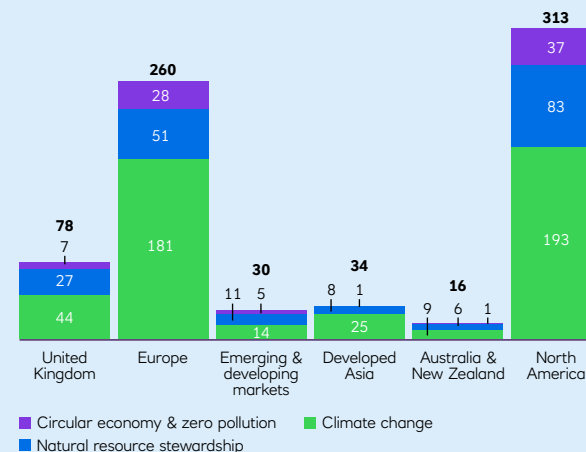
2023 engagement in custom-built funds and direct equity holdings

Engagements by theme

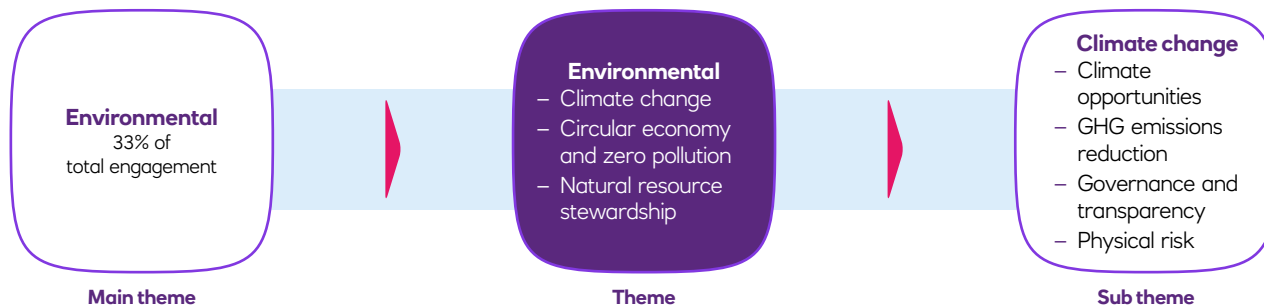


- Environmental
- Social
- Governance
- Strategy, Risk and Communications

Climate change issues and objectives engaged by region



Throughout 2023, the priority engagement themes were: climate change action, human and labour rights, human capital, and board effectiveness. The climate change category took into consideration the energy trilemma, which highlights the overlap of accelerating climate change, challenges for energy security, and rising costs and inequality in access to energy. At a sub-theme level, engagement around greenhouse gas reduction was a key focus.



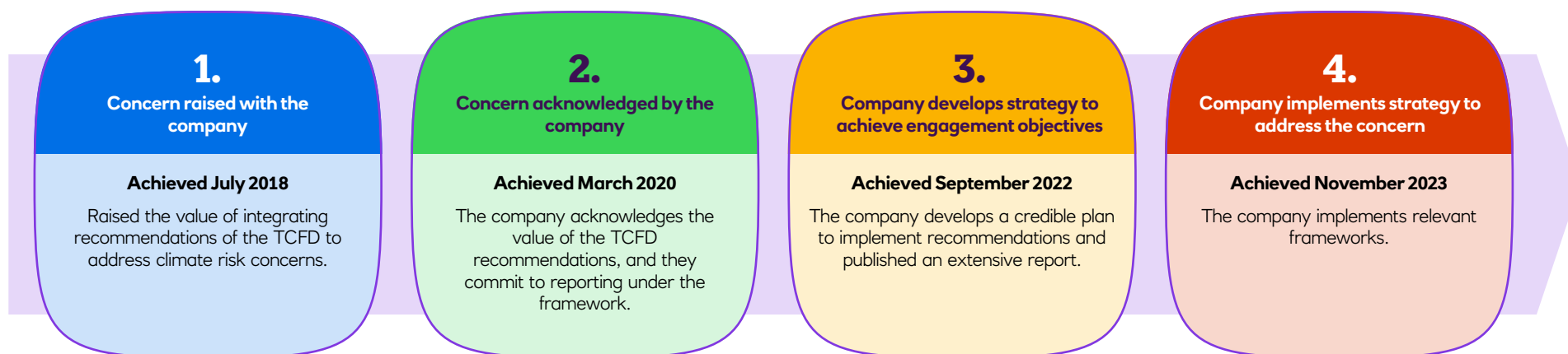
6.3 AUM Climate transition plan continued

Engagement in practice

Engagement activity is captured across four milestones. The team at EOS start the engagement process by raising the initial concern followed by an acknowledgement of the issue from the company that a response is required. The third phase requires the company to develop a credible strategy to achieve the engagement objective. The final stage looks for evidence of implementing the material actions towards completion.

We have highlighted the completion of a climate-themed engagement journey below. The company illustrated was encouraged to report in line with the pillars of the TCFD recommendations and to use the disclosure to manage climate-related risks and opportunities within a two-year time period. The initial interaction occurred in July 2018 and implementation was completed in November 2023. Each engagement is unique and the time between milestones is not an indication of engagement effectiveness as there are varying levels of complexity underlying the requirements to progress.

Example of engagement journey with European financial services company



Voting

EOS provide voting recommendations in line with our voting policy on equity holdings and Asset Management has the ultimate decision to accept or override them. In 2023, 10,373 items were voted on: 8,869 of votes were in favour of the proposal while 1,134 of votes were against. 86 votes were either abstained or withheld⁽¹⁾.

EOS's voting recommendations are in line with our stewardship policy. As a result, we do not review all individual voting recommendations. However, in a small number of high-profile votes or companies involving collective engagement activities, our internal Responsible Investing Team can decide to review the voting recommendation. This happens on an ad hoc basis to ensure that we are comfortable with the proposed vote. Annual controls are in place to review voting recommendations to assess if they are in alignment with our voting policy. In practice, a small sample of cast votes are validated against the voting recommendations.

We are committed to providing transparency on our voting activity and publish annual and quarterly updates on activity. For further details, refer to our [Policies and Disclosure](#) website.

(1) Due to data limitations, the breakdown of votes cast in 2023 does not include voting on senior management remuneration.

6.3 AUM Climate transition plan continued

Limiting our exposure to carbon intensive activities

Our exclusions approach

As a globally diversified investor, engagement is our key lever to drive climate mitigation activity across our Managed Assets as we believe that all actors have a role to play in the transition. Our engagement is focused on the long-term goal of aligning business models with net-zero emissions and implementing effective transition plans to achieve this by 2050.

However, there are certain business activities where we believe that engagement will not be effective. These include the following exclusions, subject to the stated revenue thresholds:

Exclusion	Definition	Revenue threshold
Thermal coal extraction	Thermal coal extraction refers to the mining of coal through either surface or underground mining.	5%
Tar sands	Tar sands, also known as oil sands, are a mixture of clay, sand, water and bitumen that are mined and refined into oil.	5%
Arctic oil or gas production	Arctic production refers to drilling for oil or gas in the Arctic region. This is evaluated based on whether or not a company holds at least one licence or permit for drilling within the Arctic offshore region.	5%
Thermal coal energy generation	Energy is generated by burning thermal coal in power stations to generate electricity. During the process coal is ground to a powder and fired into boilers to produce steam, which drives turbines to produce electricity.	25%
Unconventional oil and gas	Unconventional oil and gas refers to crude oil and natural gas that is not produced by traditional extraction methods. This includes, but is not limited to offshore, oil sands, tight oil, shale gas and coal bed methane.	15%

Application of our exclusions

Our exclusions policy only applies to our custom-built funds and direct equity holdings. These funds are exclusive to Asset Management, which defines the investment parameters and ESG policies. For third-party fund managers, we are unable to enforce our exclusions policy upon the managers and so we actively engage with external fund managers with regards to their investments in companies which flag on our exclusionary policy.

Our exclusions are based on percentage revenue thresholds applied to companies in our investable universe. Companies can be added to our exclusions list if the revenue they derive from any of the listed activities exceeds the stated threshold. They can subsequently be removed from the exclusions list if their revenue drops below the prescribed threshold. For example, if a company demonstrated progress towards transitioning to a net-zero economy and no longer breached our exclusions criteria, they could be re-invested in.

We rely on the availability of publicly sourced company data and the ability of our third party provider to determine accurate revenue thresholds. We regularly review the methodology of our provider to gain comfort.

Setting our exclusions

Asset Management has implemented an exclusions policy since 2020; this is distinct from the wider NatWest Group lending ESE risk acceptance criteria discussed on page 49. To add to our ESG exclusion policy, Asset Management must be able to explain our rationale for an exclusion. A member of the Responsible Investing Team will evaluate the potential impact that an exclusion may have on a portfolio. These findings are included in an investment report, which is submitted to our Asset Management Investment Committee for approval. Once approved, the new exclusion will be added to our exclusion policy, and any necessary action to remove securities held in portfolios that conflict with that policy will be taken as soon as is practicable.

Monitoring exclusions

As part of our process for monitoring compliance with our exclusions policy we regularly review companies within our investable universe. We review our exclusion policy annually to ensure that it aligns with our approach to mitigating climate risk.

Our energy-based exclusions

Due to the slow pace of transition of the energy sector, there are certain investments where we believe engagement will not deliver timely phase-out of carbon intensive activities. We currently have exclusions in place for thermal coal extraction and energy generation, tarsands extraction, Arctic oil or gas production as well as unconventional oil and gas.

 For further information, refer to our ESG-related Exclusions Policy.

6.4 AUM risk management

Processes for identifying and assessing climate-related risks

To drive progress in our risk management capabilities, Asset Management aligns with NatWest Group’s iterative, multi-year approach towards full integration of climate risk management as detailed on page 46.

In addition to operational, conduct, reputational and regulatory compliance risks already characterised, assessed and managed by NatWest Group, refer to section 3.2, the following climate-related risks have been assessed, using subject matter expert judgement, as material to our Asset Management investment strategy and customer financial risks. Of key importance are the financial risks to our customers’ assets that we manage on their behalf.

■ Physical Risks
 ■ Transition Risks
 ■ Liability Risks
 Refer to page 48 for definition of drivers.

	Climate impact on risk	Climate drivers	Description
Customer Investment Performance Risk	Financial Instrument Risk		Risk that regulatory standards on high carbon activities, evolving low-carbon technologies or changing consumer sentiment impact costs, income and subsequently, asset valuations.
			Physical risks resulting from an increase in the frequency of extreme weather events, impacting costs, income and subsequently, asset valuation.
	Market Liquidity Risk		Risk that regulatory standards on high carbon activities, evolving low carbon technologies or changing consumer sentiments drives asset valuation decline causing liquidity risk.
			Physical risks resulting from an increase in the frequency of extreme weather events drives asset valuation decline causing liquidity risk.
Business Risk	Conduct Risk		Risk that capability to model transition risks on investment performance is underdeveloped resulting in volatility risk as the market re-assesses fundamental asset valuations.
			Risk that the data and capability to model the physical risks of extreme weather events on investment performance is underdeveloped, driving volatility risk as the market re-assesses asset valuations.
			Risk that information made available to customers does not provide sufficient clarity on how climate-related risks have the potential to impact investment performance.
			Customer detriment arising from the impacts of climate change including changes to financial stability and returns delivered by assets under management which will be either supported or exacerbated by our conduct.
			Risk that we suffer customer losses over our approach to climate change and implementation strategies if they believe our strategy is compromising short-term returns.

Managing climate-related risks

For non-financial risks (operational, conduct, reputational and regulatory compliance risks) we align to NatWest Group scenario analysis and risk management capabilities, detailed on page 49.

For customer financial risks, a key development in 2023 was the integration of our net zero questionnaire into our net-zero investment framework. The questionnaire covers multiple climate indicators across three levels: organisational, fund and stewardship. The outputs of the questionnaire are used to calculate a quantitative score that is embedded into our investment decision-making process oversight and used for our portfolio alignment measurement (refer to pages 77, 83 and 85). Finally, where we believe risks are not being managed effectively, we will exclude certain activities from our investment universe as set out on page 81.

For regulatory compliance risk, NatWest Group reviews existing and emerging regulatory requirements (through regulatory horizon scanning). For any regulation pertaining just to Asset Management, our internal controls team identify and triage any new regulations or potential regulatory considerations. New and/or emerging regulations are assessed for their impact on the business and initial implementation plans are developed. Progress against compliance, including the monitoring and mitigation of associated risks and issues, are overseen by the Asset Management Risk Forum, with additional support from NatWest Group where relevant. Recent regulation identified for Asset Management includes FCA product level reporting as well as Sustainability Disclosure Requirements and investment labels.

6.4 AUM risk management continued

Integrating climate-related risks into investment decision-making of Managed Assets

Identification and assessment

Once a potential fund is identified, our net-zero questionnaire is sent to the fund manager to support assessment of multiple climate indicators across the following three levels: asset manager organisational level, fund level and stewardship.

Fund manager organisational level: We assess the overarching climate strategy, strategic goals, transition plans, engagement activities, publication of climate-related disclosures and progress against the stated strategy. From a governance perspective, we also assess if these strategic ambitions are reflected in executive remuneration.

Fund level: We assess the fund-specific strategic goals, transition plans and alignment to our exclusionary policies.

Stewardship: We assess asset manager organisational policies for investee company voting and engagement, alignment to our policies and external collective action engagement, for example, commitment to the Net Zero Asset Managers initiative. To assess the credibility of the information we receive, we assess the extent to which the commitment and investment strategy is aligned to a net-zero pathway through indicators such as science-based verification, industry framework alignment, the scope of assets and emissions included within targets and quality of disclosures.

Net-zero questionnaire completed by asset manager



Net-zero score generated

Management and mitigation

Fund selection: As part of our fund selection process, net zero scores and WACI metrics feed into our overall fund assessment and recommendation for investment into the fund. The assessment is discussed and reviewed before being submitted to the Tactical Asset Allocation Forum prior to fund onboarding.

Pre-implementation analysis: Before any new trade is initiated, an assessment of the impact on our portfolio alignment and WACI metrics is completed. Any potential trades that would breach our minimum portfolio alignment thresholds are prohibited.

Scores included in fund recommendation for investment



Pre-implementation analysis completed to ensure investments do not breach portfolio alignment thresholds

Monitoring and reporting

Monitor: Monthly monitoring of portfolio alignment and carbon intensity is conducted, and breaches of minimum portfolio alignment thresholds are escalated and reported to the relevant committee.

Reporting: A quarterly update on the portfolio alignment and WACI is submitted to Asset Management Investment Committee. Any new or emerging risks are reported to Asset Management Risk Committee as required.

Overall portfolio alignment and carbon intensity scores monitored and reported against

6.5 AUM governance

Board and executive oversight

Strategic climate decisions for AUM are subject to both Asset Management and NatWest Group governance (refer to page 61 for details). As the assessment and management of climate-related risk within investment products is nuanced we have additional governance and oversight processes tailored to asset management. The execution of investment strategy falls under individual accountability within Coutts & Co legal entity.

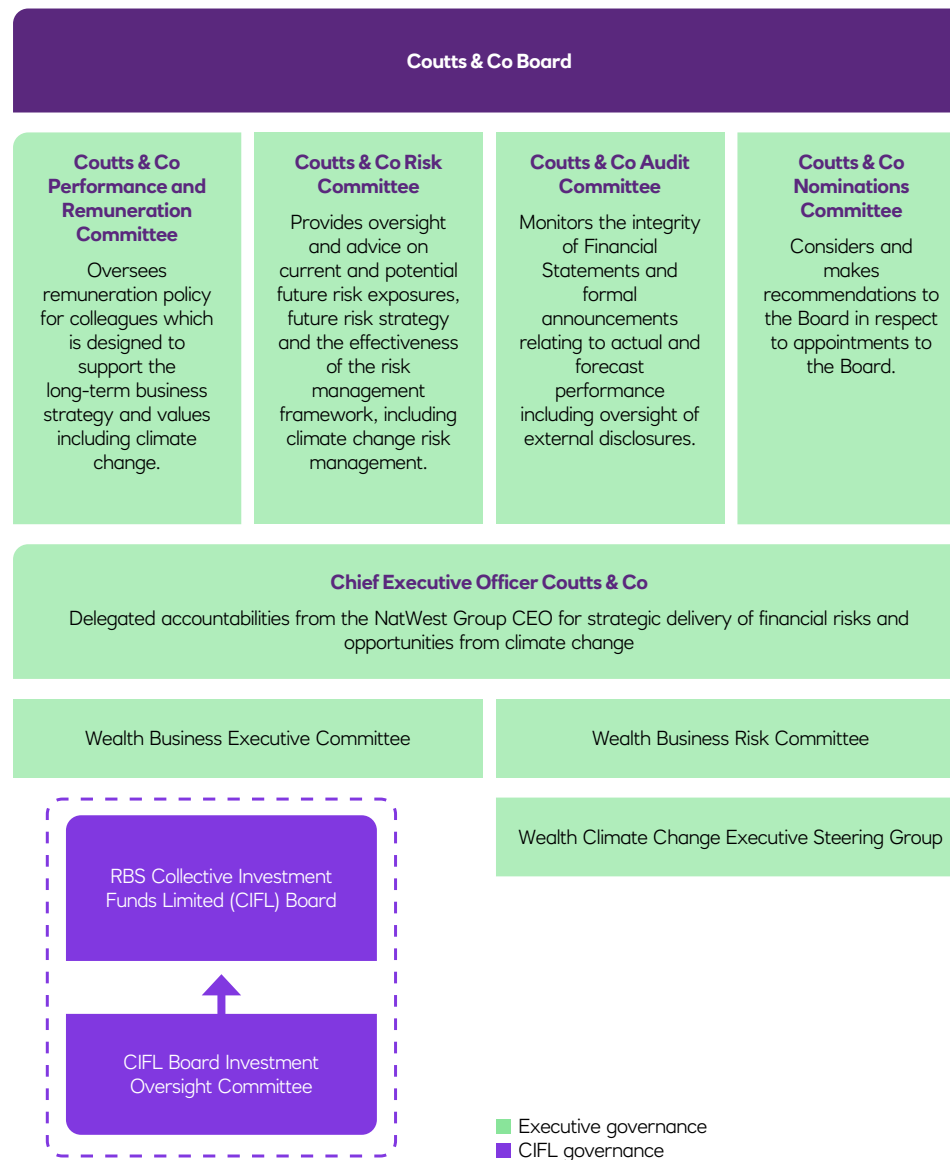
Coutts Board Oversight: As a subsidiary of NatWest Bank plc, oversight of progress against climate ambitions in relation to Asset Management resides with the Coutts & Co Board. Emerging issues which may be material to the business and affairs of Coutts are considered by the Coutts Board, including matters which relate to climate. In 2023, the Coutts Board received three climate strategy implementation updates and two climate-related education sessions.

Executive Oversight: The Coutts CEO has responsibility for the delivery of our climate strategy and the Wealth Business Executive Committee supports this. This occurs via a forum of discussion and debate across key strategic, financial, risk, control, operational, people and governance matters. The Coutts CEO, who Chairs the Wealth Businesses Executive Committee, will escalate matters, as deemed necessary, to the Chief Executive of NatWest Holdings Ltd.

The Wealth Businesses Risk Committee also supports the Coutts CEO to ensure risks have been effectively identified and managed. In 2023, the Committee received updates on strategic implementation plans and monthly updates on progress against our EWRMF multi-year climate risk maturity outcomes, as described on pages 46-47.

The Wealth Businesses Climate Change Executive Steering Group (Wealth CCESG), a sub-committee of the Wealth Businesses Risk Committee, oversees the development and delivery of the climate strategy. In 2023, updates included a climate target review in February, updates on strategy implementation plans including an energy sector review in August, as well as delivery progress updates.

RBS Collective Investment Funds Limited (CIFL): The company is a subsidiary of Coutts & Co and its purpose is to act as Authorised Corporate Director of RBS Investment Funds ICVC. The majority of CIFL funds (CMaF and PPF funds) are aligned to the Asset Management climate strategy and the CIFL Board ensures the implementation and reporting of the climate strategy is in alignment with the fund legal, regulatory and fund-specific parameters. As part of this, Coutts operates as the Investment Manager for CIFL and provides quarterly updates to the CIFL Board Investment Oversight Committee (BIOC) and CIFL Board.

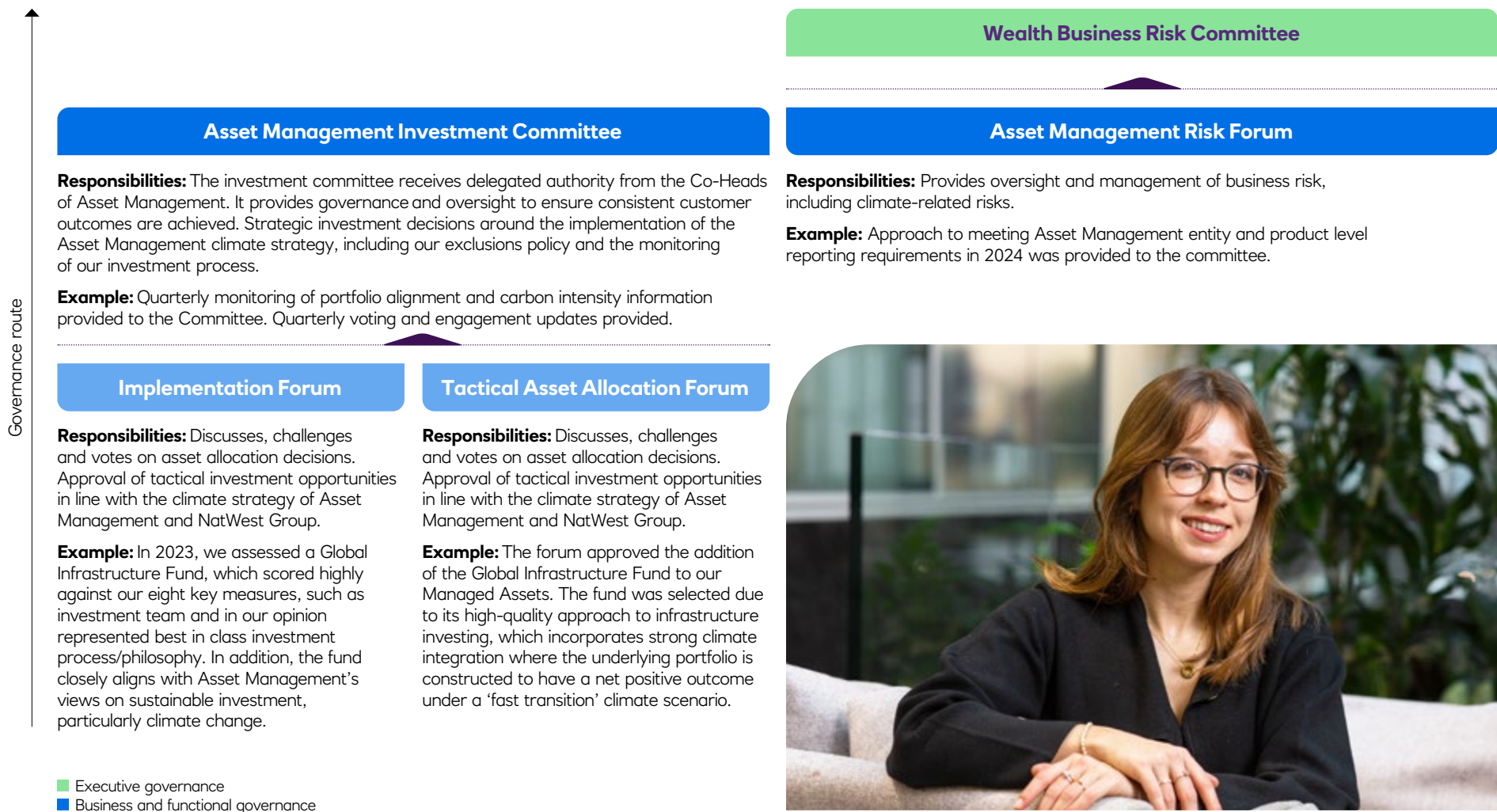


6.5 AUM governance continued

Management oversight

Climate-related risks and opportunities within our Asset Management business are managed by the Asset Management Investment Committee and the Asset Management Risk Forum. Relevant output from these meetings is presented to the Wealth CCESG before progressing to the Wealth Businesses Risk Committee or Wealth Executive Committee in accordance with the respective Terms of Reference. The Asset Management Investment Committee monitors and assesses risks and opportunities posed to our AUM, including those relating to climate change.

The graphic below shows how climate-related risks and opportunities are assessed and managed within Asset Management.



6.6 Metrics and methodologies

Our net-zero ambition is underpinned by our target to portfolio align 70% of Managed Assets and achieve a 50% reduction in WACI of our Managed Assets by 2030, against a 2019 baseline. More information can be found in section 6.2. The table below shows measurement methodology for key metrics used to assess progress towards our AUM ambitions, as well as associated limitations.

	Scope 1 and Scope 2 emissions	Weighted Average Carbon Intensity (WACI)	Carbon footprint
Data ⁽¹⁾	1.2 MtCO ₂ e	92 tCO ₂ e/US\$m revenue	61 tCO ₂ e/£m invested
Methodology	Establishes the total GHG emissions of a fund's investments	Measures assets under management exposure to carbon intensive companies	Measures overall carbon intensity of the assets under management
Formula to calculate	$\text{MtCO}_2\text{e} = \sum \left(\frac{\text{Current value of investment}}{\text{Issuer's EVIC}} \times \text{Issuer's GHG emissions} \right)$	$\text{tCO}_2\text{e}/\$m = \sum \left(\frac{\text{Current portfolio value}}{\text{Current value of investment}} \times \frac{\text{Issuer's GHG emissions}}{\text{Issuer's revenue}} \right)$ <p>Scope 1 and 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value) rather than the equity ownership approach.</p>	$\text{tCO}_2\text{e}/£m = \sum \left(\frac{\text{Issuer's EVIC}}{\text{Current value of investment}} \times \text{Issuer's GHG emissions} \right)$ <p>Current portfolio value</p>
Use	This establishes the estimated GHGs emitted for AUM	Can serve as a proxy for exposure to potential climate change-related risks relative to other funds or relative to a benchmark	Intensity metric that enables comparison of investment intensity, regardless of assets under management
Limitations	Limited in terms of comparability or benchmarking because of the size of AUM	Can only be used to measure listed equity and corporate bonds. Sensitive to high carbon but low revenue companies	Heavily influenced by market movements and can experience fluctuations year on year

(1) Equity and corporate fixed income values as at 31 July 2023. Carbon emissions have been taken from 31 December 2022.

Notes

- Emissions cover listed equity and corporate bonds, which form 72% of Managed and Bespoke AUM. Advisory assets are excluded as the investment decision-making sits with our customers. Cash and sovereigns are out of scope as we have not yet developed a methodology for these asset classes.
- Emissions are calculated in alignment with PCAF standards. The emissions data used in our entity-level report received a PCAF data quality score of 2.4 in 2023. PCAF methodology can be found detailed on page 69.
- AUM are sourced from internal systems, using MSCI data to match to individual investments.
- Issuers' GHG emissions are based on their Scope 1 and Scope 2 emissions. Published emissions are sourced from Trucost data set (86%). Where published company emissions are not available from the vendor we use either estimated emissions from the vendor (7%) or based on industry/book average (7%). Issuers revenue is sourced from FactSet.
- Scope 3 emissions are currently not reported due to limited disclosures from companies invested in.

We continue to review our approach to disclosure and expect coverage to improve with the implementation of regulatory disclosure requirements in the jurisdictions in which we invest.

WACI is measured in US dollars to be consistent with industry measures. Carbon footprint is measured per pounds sterling to be consistent with lending measures shown in section 5.2 and to be useful for UK-based customers.

Definitions

Managed emissions is measured in million tonnes of CO₂ equivalent (MtCO₂e). Issuer refers to companies we invest in. Enterprise Value Including Cash (EVIC) used for listed companies is market capitalisation plus total debt minus cash and cash equivalents. EVIC used for unlisted companies equals the sum of debt and equity.

Current value of investment is our investment exposure as a percentage of the market value of the company. Current portfolio value is the sum of all the current values of investments.

Limitations

The objective of estimation is to provide as complete and representative a picture of emissions as we believe possible, but alongside methodology updates and data revisions, this complicates comparisons and can require historical estimates to be restated. The figures should be interpreted against this backdrop of changing assumptions and heavy reliance on estimates. We have followed PCAF principles in calculating our financed emissions, but recognise that the underlying data can change materially as reported data increases and estimation methodologies improve. Refer to section 7.1 for cautions relating to metrics, data and methodologies.



Serving our customers every day

Cautionary statements

- 7.1 Caution about climate metrics and data required for climate reporting
- 7.2 Climate-related and other forward-looking statements and metrics

7.1 Caution about climate metrics and data required for climate reporting

Climate metrics in this report include, among others:

- Climate metrics, such as estimates of historical emissions including, financed emissions, absolute emissions, and various emissions intensity metrics, managed emissions, facilitated emissions, implied temperature rating or estimates of historical climate change, temperatures and other information and;
- Forward-looking climate metrics, such as aims, ambitions, estimates, forecasts, plans projections, targets, climate scenarios and emissions intensity pathways, and estimated climate projections and forecasts.

Climate metrics, whether historical or forward-looking are more inherently uncertain and, therefore, less reliable than metrics based on historical financial statements and forward-looking climate metrics and more uncertain and less reliable than historical metrics due to their forward-looking nature and assumptions about future matters that are not certain.

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 data required for climate reporting and climate metrics.

Climate metrics and data (including data required to report climate-related risks and opportunities and their potential impacts), the models, scenarios used to create them and the measurement technologies, analytical methodologies and services that support them remain in a relatively incipient stage. Accordingly, the quality and interoperability of these models, technologies, and methodologies, are also at relative early stages. The financial sector is grappling with risks related to data availability, quality (accurate, verifiable, reliable, auditable, consistent and comparable data (hereinafter referred to as “adequate data”)) and access to such data on a timely and verifiable basis. The most important of these risks are:

- Data and climate-related data may not be generally available from counterparties (including suppliers) or customers or, if available, is variable in terms of quality.
- In the absence of adequate data publicly available or available directly from individual counterparty (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.
- Adequate 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. Where third party estimates are used, their sources or methodologies may not be disclosed to NatWest Group.
- Particular data challenges for certain customer segment (e.g. SMEs) due to lack of availability of data, which limits the granularity of analysis possible for certain sectors with a large proportion of SMEs (such as for example the agriculture sector).
- Counterparty data sourced from external third parties who specialise in collating data from published reports may relate to different dates that do not correspond to NatWest Group balance sheet dates for which emissions are being estimated. This may result in a lag in

reflecting any changes in customer circumstances within NatWest Group’s financed and managed emission estimates.

- There is no single, global, cross-sector data provider that adequately and consistently covers the needed scope for adequate 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 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.

2) Risks of limited availability of adequate data required for climate reporting, particularly data relating to certain industries, industry sub-sectors and geographic sectors.

The absence of widely available adequate data, and sub-sector-related information makes it challenging to accurately disclose or estimate climate 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-related 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.

Significant gaps in sectors, sub-sectors 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.

Furthermore, data challenges, particularly the lack of granular customer information, creates challenges in identifying customers with ‘coal related infrastructure’ (e.g. transportation and storage) and other customers with ‘coal-related operations’ within NatWest Group’s large and diversified customer portfolios.

For more information on data limitations related to financed and managed emissions, refer to ‘Financed emissions – data limitations’ in section 5.3 of this report.

3) Risks inherent in the lack of standardisation, transparency and comparability.

The disclosure frameworks and methodologies for calculating climate metrics are continuing to evolve. Even where companies are using the same methodology, there may be differences in interpretation which limit the comparability of climate metrics. These differences are compounded by a limited international coordination on data and methodology standards. 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.

7.1 Caution about climate metrics and data required for climate reporting, continued

4) Risks inherent in the reliance on assumptions, scenarios and future uncertainty.

- Climate metrics are complex and require many methodological choices, judgements and assumptions.
- Climate metrics, particularly temperature scenarios 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.
- 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, managed 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.

5) 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, managed emissions, facilitated emissions and other climate-related metrics are by comparison to financial metrics are in their early stage of adoption and application and may vary widely.
- 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.

For more information on limitations and challenges on 'Estimated emissions and associated methodologies', refer to section 5 of this report.

6) Limitations of climate scenario analysis and the models that analyse them.

- 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 or downplay systemic climate-related risks. There is increasing industry concern (acknowledged by the Network for Greening the Financial System ('NGFS')) that model scenarios, including those provided by central banks and supervisory bodies are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible 'tipping points' that could lead to large, irreversible changes in the climate system (for example the melting of permafrost or the Greenland and Antarctic ice sheets).
- 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.

7.1 Caution about climate metrics and data required for climate reporting, continued

- 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 inter-dependencies 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.

Caution about judgements 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 judgements 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 judgements at the given point in time. There is a risk that these judgements estimates or assumptions may subsequently prove to be incorrect and/or may need to be restated or changed.

Climate reporting (as well as other sustainability-related reporting) in our industry is in its infancy compared to financial reporting. Although internationally recognised or accepted climate and sustainability reporting principles and standards are emerging, there is a lack of commonly accepted climate and sustainability reporting practices for NatWest Group to follow or align to. Accordingly, climate and sustainability-related measures between organisations in our industry and between reporting periods within organisations may be non-comparable as reporting principles and standards continue to develop.

In addition, the maturity of underlying data, systems and controls that support non-financial reporting are generally considerably less sophisticated than the systems and controls for financial

reporting, and also include 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 (i) as to what constitutes, a 'green', or 'sustainable' or similarly -labelled activity, product or asset; or (ii) as to what precise attributes are required for a particular activity, product or asset to be defined as 'green', or 'sustainable' or such other equivalent label.

Users of this report must not assume that NatWest Group's reporting or description of activities, products or assets will meet their present or future expectations or requirements for describing or classifying funding and financing activities as 'green', or 'sustainable' or attributing similar labels (unless a definition or standard is specified in this report).

Caution about the use of graphics and case studies.

This report contains a number of graphics, infographics, text boxes and illustrative case studies and credentials which aim to give a high-level overview of certain elements of this report and improve accessibility for readers. These graphics, infographics, text boxes and illustrative case studies are illustrative and should be read within the context of this report as a whole.

Caution about references to websites.

Reference to websites and other reports is made for information purposes only. Information available on 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 section 2.4 of this report (Case Studies).



7.2

Climate-related 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, climate scenarios, estimates, forecasts, emissions intensity pathways, plans, projections and targets, including but not limited to,

- NatWest Group’s aim to support systemic change in the real economy;
- NatWest Group’s ambition to be a leading bank in the UK, helping to address the climate challenge;
- NatWest Group’s ambition to be net zero by 2050 across its financed emissions, assets under management and operational value chain;
- 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 plans to reduce the carbon intensity of its Managed Assets by 50%, against a 2019 baseline, and to move 70% of Managed Assets to a net-zero trajectory by 2030;
- NatWest Group’s plan to reduce emissions for its operational value chain by 50%, against a 2019 baseline;
- NatWest Group’s target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025, including the ambition to provide £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;
- 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;
- NatWest Group’s 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;
- NatWest Group’s intention not to 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 not to renew, refinance or extend existing reserve-based lending used specifically for the purpose of financing oil and gas exploration, extraction and production;
- NatWest Group’s plan to collaborate cross industry and create products and services to enable customers to track their carbon impact;
- NatWest Group’s aim to begin the process of embedding nature-related risks into risk management process.

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 420 to 444 of the NatWest Group 2023 Annual Report and Accounts (with special regard to the risk factors in relation to ‘Climate and sustainability-related risks’ that describe 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;
- the effectiveness of actions of governments, legislators, regulators and businesses, the response of the wider society, investors, customers, suppliers and other stakeholders to mitigate the impact of climate and sustainability-related risks;
- changes in customer behaviour and demand, appetite for new markets, credit appetite, concentration risk appetite, lending and underwriting opportunities;

- developments in the available technology;
- the roll-out of low carbon infrastructure;
- the timely implementation and integration of adequate government policies;
- the availability of accurate, reliable, auditable, consistent and comparable 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 an exaggerated indication of climate-related risk; and
- reliance on assumptions and future uncertainty (calculations of forward-looking metrics are complex and require many methodological choices and assumptions).

Refer also to section 7.1 of this report (‘Caution about climate metrics and data required for climate reporting’).

Accordingly, undue reliance should not be placed on these statements. Furthermore, changing national and international standards, industry and scientific practices, regulatory requirements, government policy and market expectations regarding climate change and other sustainability-related matters, 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 across different regulators in different jurisdictions, or to what was NatWest Group’s understanding when defining its climate and sustainability-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 only speak as of the date they were published. 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.

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NatWest
Group

NatWest Group plc
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