NatWest Group plc

Climate-related disclosures report 2020

Group Chief Executive's statement

Alison Rose
Group Chief Executive Officer

Welcome to NatWest Group's Climate-related disclosures report, which will provide you with a deeper insight into the work we are doing to tackle climate change – one of the most important issues and opportunities, of our times.

We recognise that climate change is a critical global issue which has significant implications for our customers, employees, suppliers, partners and therefore NatWest Group itself. Taking the necessary actions to address climate change has the potential to create jobs, transform communities and touch every family in the country. Our ambition is to be a leading bank in the UK and RoI helping to address the climate challenge. Climate is a key area of focus in our Purpose-led strategy, alongside Enterprise and Learning. To tackle climate change, we must think long term and act quickly, working in partnership with others to achieve together, what cannot be achieved alone.

Our own operations
Our ambition is to make our own operations Climate Positive by 2025, having already achieved our ambition to make them Net Zero Carbon by the end of 2020.

Lord Stern was appointed as an independent adviser to NatWest Group to help us achieve our ambitions and James Close as our new Director, Climate Change, to co-ordinate and deliver our climate strategy.

Supporting our customers
We will work with, and help, our customers to transition to a low carbon economy, by giving them the tools to track their emissions, by providing incentives to make their homes more energy efficient and by helping make our towns and cities cleaner through financing renewables.

Last year, we introduced new products and services to accelerate the transition for our retail customers, including launching a new Green Mortgage offering a lower interest rate to customers who purchase more energy efficient homes. To help our retail customers reduce their climate impact we piloted a real-time carbon footprint tracker, allowing customers to track their individual carbon impact, based on their debit and credit card spending.

The way we travel accounts for a third of all CO_2 emissions. We seek to make it simple and affordable for customers and colleagues to move to electric vehicles. Our products and partnerships provide easier access to both electric vehicles and charging points, helping our customers and colleagues move away from fossil fuels.

To support entrepreneurs, we reserve 25% of spaces at our twelve entrepreneur accelerator hubs to support climate focussed businesses. These hubs support around 1,000 entrepreneurs a year UK wide. Each business receives free office space and facilities, mentoring, networking help and expert advice on delivering a net-zero business.

Aligning with the 2015 Paris Agreement
In February 2020, we set ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement. So far, we have focused on developing the initial preliminary financed emissions estimates for four sectors and in 2021 we intend to continue to broaden our analysis to other sectors. In addition to the baseline absolute emissions and emission intensity estimates, we have also prepared initial estimates of emission intensities required for alignment with the 2015 Paris Agreement in 2030 and 2050.

In 2020, NatWest Group was the first major UK bank to join the Partnership for Carbon Accounting Financials and later in 2020 we also joined the Science Based Targets initiative.

Helping to end the most harmful activities
We will also stop lending and underwriting major oil and gas producers, unless they have a credible transition plan in line with the 2015 Paris Agreement by the end of 2021 and we also plan a full phase-out from coal by 2030. We have developed a methodology to assess the credibility of transition plans of customers in the oil and gas and coal sectors, and have already reduced oil and gas lending exposure by £0.8 billion during 2020.

Climate and Sustainable Funding and Financing
For the past decade, NatWest Group has been the leading lender to the UK renewables sector, and we will continue to support our customers that operate in this sector as they invest further in renewables generation and deployment. We will continue to help our customers, both small and large, transition towards a low carbon economy through climate and sustainable funding and financing. Last year, we committed to delivering an additional £20 billion of climate and sustainable funding and financing by 2022. Having delivered £12 billion in 2020, we are bringing forward our target from 2022 to 2021. This includes funding for various low carbon generation and energy efficiency technologies, low carbon vehicles and increasingly helping clients raise funds through green bonds, green loans and green private placements.

NWM Group has lead managed 36 green bond issuances resulting in total notional amount of £23 billion for a wide range of customers in support of their climate-related activities. NWM Group is the No.1 lead manager for Green, Social and Sustainability (GSS) bonds issued by UK Corporates and No.1 for GBP-denominated GSS bonds across all sectors, with an estimated 16.8% share of the GBP-denominated GSS Bond market.

During the first half of 2020, NatWest Group became the first UK bank to issue $600 million of green bonds into the US onshore market, with the proceeds allocated to renewable energy projects across the UK.

Building powerful partnerships
We will build powerful partnerships to make the biggest impact. We will work with policy makers, customers, businesses and industry bodies to bring about significant change, at speed. As members of United Nations Environment Programme Finance Initiative we were proud to become a founding signatory to the UN Principles for Responsible Banking in September 2019. We are committed to an ongoing process to align our strategy with the Sustainable Development Goals and the 2015 Paris Agreement. We recognise the commitment in the 2015 Paris Agreement to making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development. As a result, we are using our convening power and building significant partnerships to bring about a greener, fairer and more inclusive economy for all. In our role as COP26 principle banking partner, we want to show how to lead the way in helping people and businesses across the UK to tackle climate change. By providing access to the financial resources and expertise required, we can drive the necessary change.

A greener future
We know the COVID-19 pandemic had a significant impact on people, families and businesses across the UK. We understand that, for many, their immediate priority is to weather the current health crisis and the extremely challenging economic environment. We will continue to do everything we can to support our customers through this period.

We are equally clear that climate change is one of the most important issues we face. We know we must act now if we are to build a resilient economy for the future. This means not just preparing ourselves and our customers for change but also looking at how we can help our customers to take advantage of the many opportunities transitioning to a low carbon

Alison Rose
Group Chief Executive Officer

NatWest Group Climate Ambition

Our Purpose-led strategy

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

As signatories of the UN Principles for Responsible Banking, we are committed to an ongoing process to align our strategy with the 2015 Paris Agreement and the UN Sustainable Development Goals (SDGs). Our climate ambition strives to make a positive contribution towards:

Our climate ambition

Leading bank in the UK and RoI helping to address the climate challenge

-50%	At least halve the climate impact of our financing activity by 2030.
50%	of our UK and RoI mortgage customers' homes at or above EPC or equivalent rating C by 2030.
£20bn	additional funding and financing for climate and sustainable finance by 2021.
+	Climate Positive own operations by 2025.
>15%	Stop lending and underwriting to companies with >15% of activities related to thermal and lignite coal[1] and to all major oil and gas producers, unless they have a credible transition plan[2].

Our progress highlights

36%

of Retail Banking mortgages in England and Wales are at or above EPC rating C[3].

£315m

Since launching in October 2020, we have received 1,229 applications for Green Mortgages, with the value of £315 million. These mortgages are only available on the most energy efficient properties.

£12bn

Climate and sustainable funding and financing[*], enabling us to bring forward our £20 billion target from 2022 to 2021. We expect to exceed this target during 2021.

£23bn

NWM Group has helped our clients issue 36 green bonds totalling £23 billion to support their environmental activities[4].

COP26

NatWest Group is principal banking partner for this year's COP26 summit, a clear demonstration that tackling climate challenge is at the core of the bank's purpose.

A-

We achieved a score of A- in the 2020 CDP Climate Change Survey, one of the strongest scores amongst our peers.

Zero

Achieved Net Zero Carbon on our own direct operations and remain committed to making them Climate Positive by 2025.

Notes:

(1) Full phase-out from coal by 2030.

(2) In line with the 2015 Paris agreement by the end of 2021.

(3) Percentage of £92.9 billion mortgages in England and Wales for which EPC data is available.

(4) Includes £5 billion attributable to NWM Group, included within the £12 billion climate and sustainable funding and financing.

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

Our 2020 reporting suite

All contained within the 2020 NatWest Group Annual Report and Accounts

Strategic report and business review
An overview of our business, our 2020 financial and non-financial performance and progress in terms of our Purpose-led strategy to champion potential, helping people, families and businesses to thrive.

Governance and remuneration report
A detailed review of our corporate governance and remuneration, including the report of the directors and annual report on remuneration.

Risk and capital management report
A detailed overview of the management of key risks relating to our business operations and disclosures on our capital, liquidity and funding position.

Financial statements
Our financial statements and related notes, including the independent auditor's report.

Company announcement and Financial supplement
Our latest company information including our financial performance for the year with a focus on key metrics and measurement. The financial supplement provides key financial performance data for the nine quarters ended 31 December 2020.

Climate-related disclosures report
Details our progress in 2020 on our climate ambitions including an overview of our approach to climate-related, strategy scenario analysis, risk management and metrics.

ESG supplement
Provides an overview of Our Purpose in action and key environmental, social and governance matters including progress in 2020. Due to be published in the first quarter of 2021.

Pillar 3 report
Focuses on our regulatory reporting requirements and provides an explanation of our risk profile, including our capital adequacy, our risk appetite and risk management.

natwestgroup.com

In addition to the reports above, we provide key subsidiary reporting, quarterly results, other periodic and archived reporting. Other stakeholder resource are also provided including investor slides, presentations and factbooks and reporting in relation to our GSS bond issuance.

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1. Introduction

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1.1 NatWest Group and climate change

We recognise that climate change is a global issue which has significant implications for our customers, employees, suppliers, partners, investors and therefore NatWest Group itself. The image below illustrates how climate change impacts NatWest Group and how NatWest Group impacts climate change.

Impact of climate change on NatWest Group

Climate-related risks

Transition risks: Policy and Legal risks, Technology, Market, Reputation

Physical Risks: Acute and chronic

Examples of transmission into the economy

- Changes in productivity
- Shifts in prices
- Changes in demand and costs
- Asset damages and disruption
- Income loss
- Changes in investment behaviours

Examples of impacts on NatWest Group key risks

Credit risk: potential increase in impairments

Market risk: adjustment to prices and value

Operational risk: business disruption costs

Reputational risk: reputational damage arising from response to climate risk

Impact of NatWest Group on climate change

Our Ambition

In February 2020, we announced our ambition to be a leading bank in the UK and RoI helping to address the climate challenge by:

- Setting ourselves the challenge to at least halve the climate impact of our financing activity by 2030.
- Committing £20 billion to climate and sustainable funding and financing between 2020 – 2021.
- Making our own operations Climate Positive by 2025.
- Stopping lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, and to major oil and gas producers, unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021.

1.2 NatWest Group climate-related disclosures overview

NatWest Group publicly committed to support the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD) recommendations in 2017. We are making progress on assessing climate-related risks and opportunities, establishing governance and risk management processes, as well as developing metrics and targets. This report includes climate-related disclosures intended to align with the TCFD recommendations.

As reflected in the table below, we have made progress in a number of areas during 2020 and identified future priorities.

Climate disclosure themes	Future priorities	Disclosure references
Strategy		
Identification of climate-related risks and opportunities • Climate-related opportunities linked to NatWest Group's climate ambition have been identified and progressed to support customers' transition to low carbon economy through various initiatives, including NatWest Group's £20 billion climate and sustainable funding and financing commitment. • Preliminary assessment of climate-related risks over short, medium and long term was performed.	Further develop climate-related risks and opportunities identification and impact assessment processes.	Sections 2.2 to 2.6, 4.1
Impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning • NatWest Group's climate ambition, announced in February 2020, recognises various climate-related risks and opportunities to embed climate in our business and culture, as well as support customers' transition to low carbon economy. • Progress made on 2020 climate ambition announcements include achieving the target of making our own operations Net Zero Carbon in 2020, £12 billion climate and sustainable funding and financing, issuance of NatWest Group Green Bonds $600 million USD. • During 2020, climate considerations were included in existing processes and new products launched to help customers transition to low carbon economy. • Qualitative considerations related to climate were included in the 2021 financial planning cycle.	• Progress climate ambition announcements and continue to embed climate in business activities. • Enhance climate-related risks and opportunities measurement capabilities and financial planning process.	Sections 2.1 to 2.7
Climate-related scenario analysis During 2020, we have developed and tested a methodology to use scenario analysis to quantify the size of a range of climate-related risks and opportunities for our commercial and retail customers. Preliminary insights from this analysis will be used to support strategy, business decision making and development of management actions.	• Extend and enhance scenario analysis capabilities and perform the Bank of England's Climate Biennial Exploratory Scenario (CBES) in 2021. • Incorporate climate-related risks into our strategic, capital and liquidity plans. • Establish management actions based on insights from scenario analysis outcomes to support decision making and risk management, including inform annual stress testing cycles.	Section 2.8

1.2 NatWest Group climate-related disclosures overview continued

Climate disclosure themes	Future priorities	Disclosure references
Governance		
Board oversight of climate-related risks and opportunities • Activities during 2020 have focused on building Board and Board Committee members' knowledge, clarifying roles and responsibilities, as well as incorporating climate in strategic and risk appetite discussions, aligned to NatWest Group's climate ambition. • A review of the terms of reference for Board Committees was conducted to ensure appropriate oversight of climate across the Committees in support of the Purpose-led strategy. • Operating rhythm for review of climate risks and opportunities reporting has been established.	• Further develop Board and Board Committees operating rhythm for review of climate-related risks and opportunities with continued focus on reporting and decision making. • Formalise oversight of climate-related risks and opportunities at a principal subsidiary level.	Sections 3, 3.1
Management's role is assessing and managing climate-related risks and opportunities • During 2020, work progressed to adopt an integrated climate governance model. The Board approved the allocation of Senior Management Function responsibility for identifying and managing financial risks from climate change jointly to the Group Chief Executive Officer (CEO) and the Group Chief Risk Officer (CRO). • Group Climate Change programme coordinated delivery of climate-related risks and opportunities initiatives across the Bank, including those related to the delivery of the climate ambition.	Embed operating models and business processes to support the management of climate-related risks and opportunities, including reporting to support strategic decision making.	Section 3.2
Risk management		
Identifying and assessing climate-related risks • Work during 2020 focused on incorporating climate risk considerations within NatWest Group's Enterprise Wide Risk Management Framework (EWRMF). In addition, to provide immediate focus, climate risk has also been recognised as a principal risk. • Preliminary assessment of climate-related risks over short, medium and long term was performed and potential impacts and linkage to existing risk categories developed.	• Implement climate risk policy, statement of appetite and risk appetite measures. • Continue enhancements to Enterprise Wide Risk Toolkit to support identification and assessment of risk impact on other principal risks.	Section 4.1
Managing climate-related risks • Recognising the cross-cutting causal nature of climate risk, we have continued to incorporate climate considerations within risk management. • For the residential mortgage portfolio, analysis was completed at a property level to assess transition risk by reviewing energy efficiency of properties, and physical risk through exposure to flood risk. • Climate risk has been included as a factor in setting sector oversight classifications for wholesale customers. Thirteen wholesale sectors, in addition to residential mortgages, were identified as exposed to heightened climate risk based on this initial analysis of transition and physical risks. • Within operational risk, a scenario analysis pilot was performed on the Group's operations in India to assess the potential effects of climate driven events including disruption to business services, damage to physical assets and, health and safety.	During 2021, we will continue to enhance the management of climate-related risks, including: • Development of qualitative and quantitative climate-related risk measures and key risk indicators. • Further embedding of climate consideration in product design and lending decisions through the use of climate risk data (EPC, flood analysis, CBES findings). • Assess impact of climate-related risks on NatWest Group's non-financial risk profile as part of risk and control assessment of relevant processes.	Section 4.2
Integrating climate-related risks in risk management • As part of the Environmental, Social and Ethical Framework (ESE Framework), coal lending thresholds for the mining and metals, and power generation sectors were reduced from 40% to 15%. In addition, prohibitions on project financing for new exploration in the oil and gas sector, including fracking, were put in place. • Guidance was issued to ensure appropriate consideration of climate-related risks in internal risk and control assessments. • Work is on-going to develop plans to implement updates in the risk frameworks and tools, within franchises and business processes.	• Work is underway to embed climate-related risk management across business processes. An example of this is the qualitative appraisal of climate within existing sector Transaction Acceptance Standards. • Enhance business processes to integrate risk management framework and toolkit updates.	Section 4.2

1.2 NatWest Group climate-related disclosures overview continued

Climate disclosure themes	Future priorities	Disclosure references
Metrics and targets		
Metrics and targets used to assess and manage climate-related risks and opportunities: Metrics and targets developed and disclosed include: • Exposures to heightened climate-related risk sectors identified based on physical and transition risk assessment. • Energy efficiency and flood risk assessment for Retail Banking residential mortgage portfolio. • Progress on climate and sustainable funding and financing. • NatWest Group green bond issuance.	We will continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities during 2021.	Sections 5.1 to 5.4
Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions We have continued to develop and enhance capabilities to measure our carbon footprint both related to own operations as well as financed emissions. This is aligned with our climate ambition: • **Make our own operations Climate Positive by 2025:** Disclosures have been included for own operations (Scope 1 and 2), as well as Scope 3 (business travel, paper, waste and water). Also, updates on progress made towards Climate Group Initiative commitments. • **Halve the climate impact of our financing activity by 2030:** We have developed and disclosed preliminary financed emissions estimates for four high climate impact sectors, and emissions intensity estimates for 2030 and 2050 for three of those four sectors.	During 2021, we will complete footprint estimate of 2019 total financed emissions and develop estimates aligned with the 2015 Paris Agreement for a further four sectors.	Sections 5.5 to 5.6

1.3 Assurance approach

NatWest Group plc appointed Ernst & Young LLP (EY) to provide limited independent assurance over selected ESG (including climate-related disclosures) content marked with (*) as at and for the year ended 31 December 2020. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A limited assurance opinion was issued and is available on NatWestGroup.com. This opinion includes details of the scope, respective responsibilities, work performed, limitations and conclusion.

2. Strategy

NatWest Group's ambition is to be a leading bank in the UK and RoI in helping to address climate change by making our own operations Climate Positive by 2025, and by driving material reductions in the climate impact of our financing activity.

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2.1 NatWest Group's climate ambition

NatWest Group's ambition to be a leading bank in the UK and RoI in helping to address the climate challenge is supported by the following key areas of activity.

Accelerating the speed of transition

Support our UK and RoI 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 book has an EPC or equivalent rating of C or above by 2030.

Collaborate cross industry and create products and services to enable customers to track their carbon impact.

Coutts Asset Management has set a target to reduce the level of carbon intensity for the equity component of their portfolios by 25% by end of 2021 and by 50% across all discretionary portfolios and funds by 2030.

Support the drive to decarbonise UK transport through our Future Mobility Group.

This is a multi-disciplined centre of excellence working across the Bank and the emerging mobility eco-system to enable us to invest in the development of our product and service offering, in addition to enhancing our market and risk insight to maximise the support for the decarbonisation of UK surface transport.

Helping to end the most harmful activity

Stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal; unless they have a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021. We plan a full phase-out from coal by 2030.

Stop lending and underwriting to major oil and gas producers unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021.

Championing climate solutions

We will provide additional £20 billion funding and financing for Climate and Sustainable finance between 2020-2021.

At least 25% of the spaces in our Accelerator Hubs will be reserved for businesses whose core offering supports sustainable environmental activities (including climate solutions).

Embedding climate into our culture and decision making

We are revising executive remuneration to reflect achievement of climate targets.

We are also setting ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by 2022.

We will integrate the financial and non-financial risks arising from climate change into our EWRMF.

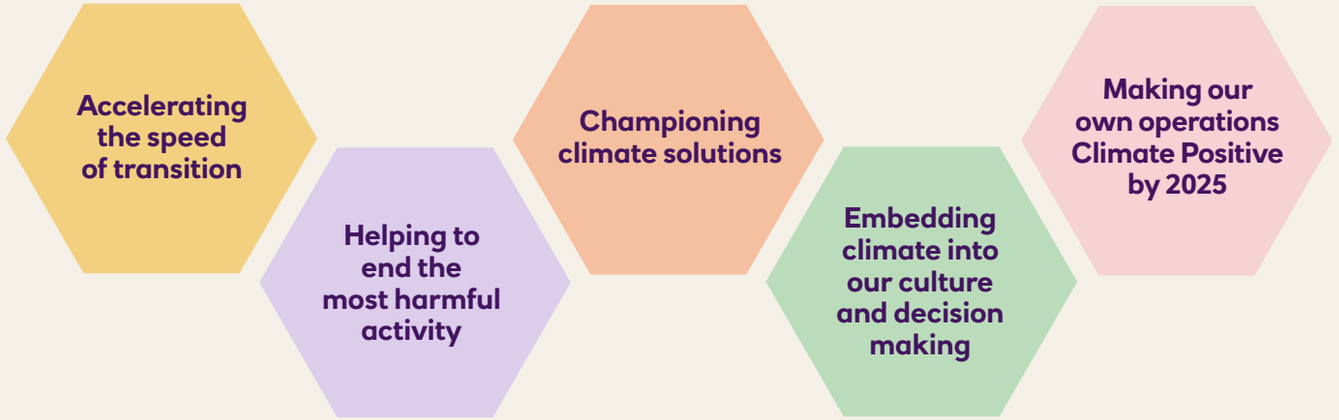
Making our own operations Climate Positive by 2025

Use only renewable electricity in our direct global operations by 2025 (RE100).

Install electric vehicle charging infrastructure in more than 600 spaces across our UK and RoI portfolio by 2030 (EV100).

Upgrade our job need cars of around 300 vehicles to electric models by 2025 (EV100).

Improve Energy Productivity by 40% by 2025 against a 2015 baseline (EP100).



When we announced our Purpose-led strategy in 2020, we acknowledged the significant challenge this posed. We are determined to not just play our part, but to lead on the collaboration and co-operation that is so critical to influencing the transition to a low carbon economy. Our climate ambition incorporates various climate-related opportunities and at the same time, enables us to identify climate-related risks. As a systemic UK bank, we must play an active role and these market leading ambitions underline our position.

In November 2020, the UK Government published 'The Ten point Plan for Green Industrial Revolution'. As a largely UK-focused bank, we will support the Government's plan to build back better, support green jobs, and help accelerate the UK's path to net zero. This is not only the right thing to do, it will give us the opportunity to support our customers, as they transition to a low carbon economy.

Sections 2.2 to 2.6 summarise progress made during 2020 on the key areas of our climate ambition.

2.2 Accelerating the speed of transition to a low carbon economy

Accelerating the speed of transition

We have identified several potential climate-related opportunities over the short, medium and long term relating to the transition to a low carbon economy. The table below summarises the initiatives we worked on in 2020, to test and explore the potential of these opportunities to support our customers.

Climate-related opportunities	Customer	Our progress	Impact
Retail Banking			
Green Mortgages	Residential mortgage customers	This product, launched in late October 2020, offers lower interest rates for customers purchasing homes with an Energy Performance Certificate (EPC) rating of A or B, rewarding them for playing their part in helping to drive the UK transition to a low carbon economy. Since launch, we have received 1,229 mortgage applications with the value of £315 million.	Lower rate funding towards more energy efficient homes.
£100 thank you for going green	Retail customers	The incentive is available to customers with a HM Government Green Homes Grant voucher, who successfully take out a Home Improvement loan and then upload their Green Homes Grant voucher. Customers are eligible for loans of up to £7,450 for home improvements, when they provide the Government Green Homes Grant voucher.	Funding towards making homes more energy efficient.
Go Green Hub	All customers	Launched in July 2020, the Go Green Hub aims to motivate customers to make behavioural changes – through providing educational and thought leadership content as well as simple and accessible tools and resources to help customers better understand their own environmental impact. In addition, it signposts solutions, products and services to help customers manage and reduce their environmental impact.	Helps customers identify steps they can take to reduce their environmental impact.
Carbon footprint tracking pilot	Retail customers	The limited pilot, developed in partnership with CoGo, provides current account and credit card customers access to a real-time carbon footprint tracker based on their spending habits. As soon as a customer connects their bank account to the app, the carbon footprint tracker automatically calculates their real-time carbon footprint based on their transactions. This is updated with every spend, from their morning coffee to travel, showing customers their climate impact. The carbon footprint tracking pilot also provides actions for users to consider, from lowering meat intake to nudging users towards switching to renewable energy.	Helps customers understand their carbon impact. Each month, the carbon footprint tracking pilot also provides users with the ability to offset their impact.
Private Banking			
Green Mortgages	Residential mortgage customers	The Green Mortgage pilot was launched in November 2020. Customers qualify for a discount on 2 Year Base Rate Tracker mortgages by demonstrating that their property's Energy Efficiency Rating has increased to EPC rating A, B, or C. The Green Mortgage discount is available up to 12 months after completion, subject to the customer providing their relationship manager with an upgraded EPC certificate.	Lower rate funding to encourage customers to increase energy efficiency of homes.
Coutts Asset Management – Target to reduce the level of carbon intensity for the equity component of their funds and portfolios by 25% by end of 2021	Investments – All invested customers	In the first half of 2020, Coutts Asset Management reduced the carbon intensity on equity holdings of all funds and portfolios by 29% on average. This includes the Personal Portfolio Funds (the investments for our NatWest Invest and Royal Bank Invest digital investment platforms), which saw a reduction of 33% on average. The 29% reduction resulted from deliberate action taken within the funds and portfolios to shift to lower-carbon investments and by engaging with the companies and funds we invest in to reduce their carbon emissions. Carbon intensity is calculated as carbon emissions per million dollar of sales. Currently, this is only measured for equity holdings as data availability for these holdings is better than for other assets in the funds and portfolio. On average, equity holdings make up 60% of the total assets in the funds. In addition, Coutts Asset Management has divested from high-impact fossil fuels in its Coutts funds managed by BlackRock. The Coutts funds exclude any companies that derive more than 5% revenue from thermal coal extraction, Arctic oil and gas exploration and tar sands, and more than 25% of revenue from thermal coal energy generation.	Help reduce investment risk in client portfolios associated with climate change and help clients reduce their own carbon footprint through their investments.

Continued overleaf

2.2 Accelerating the speed of transition to a low carbon economy continued

Accelerating the speed of transition

Climate-related opportunities	Customer	Our progress	Impact
Commercial Banking			
Future Mobility: enabling electric charging infrastructure	Retail and commercial customers	In February 2021, NatWest Group launched a partnership with Octopus Energy, the UK's fastest growing energy technology company, to help make it simple for customers and colleagues to move to electric vehicles (EVs). The partnership promotes infrastructure delivery by providing a single managed solution covering preferential pricing and encompassing full range of solutions from simple consumer installation to multi-site with solar panels, battery storage and green energy provision. The combination of NatWest Group's financing and Octopus' energy innovation will help all our customers decarbonise their transport.	Facilitate electric vehicle transition and transportation decarbonisation by easing investment in infrastructure.
Future Mobility: enabling fleet transition	Various	NatWest Group has financed 73 pure e-buses by working with multiple operators and the emerging 'as-a-service' ecosystem. Benefits of electric transition were highlighted as part of NatWest Group's colleague company car scheme resulting in 66% of new vehicles being wholly powered by battery; considerably ahead of the wider market. Over 2020 the Lombard Vehicle Solutions car fleet has doubled the number of vehicles that are wholly powered by battery.	Increasing the number of alternatively fuelled vehicles on the road and speeding the transition from internal combustion.
Commercial real estate lending standards	Corporate	From January 2021, new minimum standards have been introduced in commercial real estate lending appetite for residential new build lending, which requires properties to achieve a minimum EPC rating of B. In addition, standard lending terms for commercial real estate now include our preference for green leases to be used by commercial landlords. Green leases are a mechanism for landlords and tenants to agree to work together to improve the sustainability of a building. Green leases will encourage better alignment of key stakeholders involved in the commercial real estate sector, which we see as an important step in moving towards net zero buildings.	The new EPC minimum standard encourages the development of energy efficient homes for sale into the UK Housing market and complements our Green Mortgage product for home buyers.
Carbon footprint tracking pilot	SMEs	We are building a prototype to allow SMEs (<£6.5 million turnover) to track their carbon footprint using their transactional data and implement actions to reduce their footprint. We have partnered with CoGo to deliver this prototype and will initially be testing with a small number of customers to understand how they would use this proposition and identify areas for iteration, as well as considering options for a full pilot, if successful. In late 2020 we gathered technical requirements and designed the user experience and user interfaces for the prototype. We are now building a mobile app prototype for customers to test with their data in the first half of 2021.	Helps SMEs understand their carbon impact on the environment. SMEs are a major contributor to the UK economy and therefore a transition to a carbon neutral economy must help SMEs transition to becoming carbon neutral.
NatWest Markets			
Thought leadership and education	Corporate and Institutional customers	NatWest Markets shared insights with customers and market participants, including rating agencies, regulators, corporates, investors and industry experts to address specific challenges in respect of climate change and related financing.	Alongside webinars and virtual roundtables, NatWest Markets have published over 50 market insight articles targeted across our customer base to support their needs, as well as regulatory and policy developments such as discussing the impact of ESG integration into credit analysis.
New product innovation	Corporate and Institutional customers	NatWest Markets actively developed new and innovative products across the yield curve to support green activities and customers' transition journeys. In collaboration with Commercial Banking, NatWest Markets structured the first synthetic green securitisation based on a renewable energy loan portfolio within the bank.	NatWest Markets plan to embed climate solutions throughout our product offering and continue to innovate to support customers in transitioning to a low carbon economy.

Continued overleaf

2.2 Accelerating the speed of transition to a low carbon economy continued

Accelerating the speed of transition

Climate-related opportunities	Customer	Our progress	Impact
RBS International			
Trustee and Depositary ESG reporting tool	Trustee and Depository customers	Working with specialist services firms to build an ESG Reporting Tool, (incorporating climate and other ESG data) which will augment customer data with artificial intelligence to provide a real-time platform. We are currently building the model, with testing scheduled for early 2021.	The tool is expected to help solve the ESG (including climate) data challenge for our customers by identifying the best available data, producing granular and traceable insights, and focusing on the forward momentum of material ESG topics in order to safeguard funds' ultimate beneficiaries.

2.3 Helping to end the most harmful activity

Helping to end the most harmful activity

Our ambition	Our Progress	Impact
We plan to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal; unless they have a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021. We plan a full phase-out from coal by 2030. Also, to stop lending and underwriting to major oil and gas producers unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021.	Oil and gas gross lending exposure has reduced by £0.8 billion during 2020 (December 2020 £4.1 billion; December 2019 £4.9 billion). Large corporate customers with gross lending exposure of £2 billion at December 2020 have been identified as requiring Paris aligned and Credible Transition Plans (CTP) by the end of 2021. This includes oil and gas majors and also customers engaged in coal (thermal and lignite) related to mining, power generation and trading activities. During 2020 we have worked with an external expert to define a methodology for CTP assessment. The methodology comprises: a) quantitative assessment using the climate scenario temperature alignment model to evaluate whether companies transition plans and resulting projections for Scope 1, 2 and 3 emissions are consistent with temperature scenarios that are aligned to the goals of the 2015 Paris Agreement. b) qualitative assessment of the credibility of customers' transition plans through use of a questionnaire and scorecard to be filled in by relationship managers through public data and discussions with customers. A proof of concept was completed for two customers and customer facing teams are being trained to carry out CTP assessments. We expect to complete our review of in scope customers by the end of 2021.	Support customers with their transition plans by providing advice, finance and access to markets in relation to the funding of investments involved in those plans. Reduced portfolio credit risk by ceasing to lend to corporate customers that don't have credible transition plans in place by the end of 2021.

2.4 Championing climate solutions

Championing climate solutions

One of the largest climate-related opportunities we identified last year was to play a leading role in championing climate solutions by supporting customers through climate and sustainable funding and financing. The table below summarises our ambition and 2020 progress.

Climate-related opportunities	Customer	Our progress	Impact
Climate and Sustainable Funding and Financing: Additional £20 billion climate and sustainable funding and financing between 2020-2021.	Non-personal customers	During the year, £12 billion climate and sustainable funding and financing has been completed. The £12 billion comprises £7.2 billion in NatWest Markets, £3.9 billion in Commercial Banking, £0.8 billion in RBS International and £0.1 billion in other segments. We expect to exceed our £20 billion target during 2021. Refer to section 5.3 for more details.	Encourage customers to transition to low carbon activities and encourage further Green projects such as renewable energy.
At least 25% of the spaces in our Accelerator Hubs will be reserved for businesses whose core offering supports sustainable environmental activities.	Entrepreneurs	Of the 1,085 businesses on-boarded to the Entrepreneur Accelerator in 2020, 268 were businesses whose core offering supports sustainable activity, which meets our 25% ambition.	NatWest Group voted the No. 1 Accelerator in the UK by Beauhurst – the searchable database of the UK's high growth companies.

2.5 Embedding climate into our culture and decision making

Embedding climate into our culture and decision making

To determine how climate-related risks and opportunities impact our strategy, business and financial planning over the short, medium and long term, we recognise that it is important to embed considerations of climate into our culture and decision- making. The table below summarises our ambition and 2020 progress.

Our ambition	Our progress
Revising executive remuneration to reflect achievement of climate targets.	Climate considerations were included in Senior Executive remuneration for the year 2020 and have been updated for 2021. Refer to the Governance and remuneration report in the 2020 Annual Report and Accounts for further details.
We set ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by 2022.	We have developed financed emissions estimates for four sectors – residential mortgages, oil and gas, automotive and agriculture. Also, developed emissions intensity estimates for 2030 and 2050, for three of the four sectors. Refer to section 5.6 for further details. NatWest Group was the first major UK bank to join Partnership for Carbon Accounting Financials (PCAF). NatWest Group joined Science Based Targets initiative (SBTi) following the launch of the Financial Sector Science- based Targets Guidance in 2020.
We will integrate the financial and non-financial risks arising from climate change into our EWRMF.	During 2020, work has continued to integrate climate risk within the EWRMF. As part of the Environmental, Social and Ethical framework, coal lending thresholds for the mining and metals, and power generation sectors were reduced from 40% to 15%. In addition, prohibitions on project financing for new exploration in the oil and gas sector, including fracking were put in place. Refer to section 4 for further details.

Education

Education amongst all colleagues has been a key focus during 2020 to help embed climate into our culture, including identification and management of climate-related risks and opportunities across NatWest Group. Key activities include:

- **Priority role training** – c.800 colleagues participated in a 12 week programme launched during Q3 2020. This programme was developed specifically for NatWest Group and run by the University of Edinburgh's Centre for Business, Climate Change and Sustainability.

  Colleagues, including sector leads and customer journey managers, were selected based on their roles to help NatWest Group drive forward and realise our climate ambition. The aim of the training was to create local climate champions within business areas. The programme has created a real momentum within businesses to understand how we can address climate change as a bank and at a personal level.

- **Senior leaders** – c.500 senior leaders participated in a programme on climate change developed and run by the Cambridge Institute for Sustainability Leadership. The programme was developed specifically for NatWest Group with the objective of enhancing knowledge and skills required to lead on NatWest Group's climate ambition within the bank, the financial services industry and the wider economy.

- All colleagues – A mandated online learning module was released in April, explaining climate change, its impact, what NatWest Group is doing to tackle climate change and the role colleagues can play within this. The online module achieved 94% completion rate and a specific version was also created for Non Executive Directors. In addition, online learning resources were made available through a dedicated climate page within the online NatWest Group Learning Academy.

- Colleague education packs on Sustainability in Real Estate were rolled out across the commercial real estate business to support customer conversations.

- During 2021, Commercial Banking will focus on supporting relationship managers to deepen their climate knowledge to enable thought leadership with customers.

- In early 2021, we launched a pilot with 100 users for a month using the Giki Zero external digital platform that provides colleagues with a personalised step by step guide to lead a more sustainable lifestyle.

Regular updates will be provided to colleagues through ongoing communications and training during 2021 to embed the training provided in 2020. For priority roles, enhanced learning will continue using a mixture of internal and external modular options. Leaders will participate in climate focused coaching to drive advocacy with colleagues and customers.

2.6 Impact of climate-related risks and opportunities on our operations, business and financial planning

2.6.1 Making our own operations Climate Positive by 2025

Making our own operations Climate Positive by 2025

The table below details commitments to reduce the climate impact of our own operations and progress during 2020.

Our ambition	Our progress
Make our own operations Climate Positive by 2025[1]	NatWest Group achieved Net Zero Carbon across our own operations in 2020[2]. We achieved this through a combination of emissions reductions, in line with our 1.5-degree science-based target commitment, alongside offsetting residual Scope 1, 2 and 3 emissions through the purchase of internationally recognised TIST Carbon Credits. In recognition of the exceptional circumstances in 2020, we have also offset all emissions from home working. We plan to achieve Climate Positive by continuing to reduce emissions 25% by 2025 against a 2019 baseline, while maintaining carbon offsetting at 2019 residual levels.
Use only renewable electricity in our direct global operations by 2025 (RE100)	In 2020 we achieved our interim target of 90% renewable electricity coverage. This was achieved through a combination of: • 91% of our UK and RoI electricity is from renewable sources. • Purchasing Renewable Energy Certificates (RECs) for our landlord-supplied properties in India, Europe and the UK, where we are currently unable to specify a requirement for renewable electricity. Going forward, and in order to reach our target of 100% global renewable electricity by 2025, we will work with our principal landlords to advocate for renewable electricity provision for all properties, where possible.
Install electric vehicle charging infrastructure in more than 600 spaces across our UK and RoI portfolio by 2030 (EV100)	During 2020, 20 charge point connections were installed in Belfast and all remaining sites were surveyed ready to deliver the rest of the programme. We have engaged with a third party to support the programme roll out which will include the installation of over 250 chargers at our Gogarburn Headquarters.
Upgrade our job need cars of around 300 vehicles to electric models by 2025 (EV100)	During 2020 we set the strategy for transition and agreed vehicle criteria including price, specification and range. From 2021, upon lease expiry of current diesel vehicles and where homebased infrastructure allows, we will start providing colleagues with an electric vehicle and home charge point.
Improve Energy Productivity to 40% by 2025 against a 2015 baseline (EP100)	We have increased energy productivity (FTE per GWh) by 36% since 2015. Our EP100 target is supported by a decrease in energy consumption. Across our global portfolio, electricity consumption decreased by 22% and natural gas consumption decreased by 14% when compared to 2019.

(1) Refer to section 5.5 for further details on NatWest Group own operational footprint, including the emissions impact of working from home due to the COVID-19 pandemic.

(2) Our Own Operational Footprint reporting year runs from October 2019 to September 2020.

2.6.2 Impact of climate-related risks and opportunities on the business

Work is on-going to embed climate-related risks and opportunities within our business. A new Climate Centre of Excellence has been established within the Strategy function to help the Bank deliver its climate change strategy and bring all of its climate-related work together. The new Climate Centre of Excellence will look beyond the Bank's current commitments and activity, horizon scanning, developing high impact partnerships, emerging risks and new opportunities.

NatWest Group offers services, financing and funding solutions to customers, to help them achieve their green and climate ambitions. The table below summarises the products and services offered to our range of customers.

Personal Customers	Non-Personal Customers		
	Start Ups, micro SMEs, Small SMEs and High Growth	Mid and Large Corporates and Institutions	Capital Markets
Green Mortgages	Climate Accelerator	Sustainability Linked Loans	Green and Transition Bonds
£100 Thank You Green Incentive	Social and Community Capital	Octopus EV partnership	Green and Transition Private Placements
Octopus EV partnership	Octopus EV partnership		Green securitisation
Carbon footprint tracking pilot			Green commercial paper
Private Banking - Investment solutions with a focus on ESG integration and active stewardship			Sustainable linked bonds

2.6.3 Impact of climate-related risks and opportunities on financial planning

We are working to incorporate climate and broader Purpose considerations in our financial planning processes. Work in 2020 involved developing measurement capabilities across NatWest Group as part of the opportunities, financed emissions estimates and scenario analysis work. Qualitative considerations related to climate, based on the climate-related risks and opportunities work, were incorporated in the 2021 financial planning cycle. Work in 2021 will include developing forward looking quantitative considerations linked to business actions identified based on preliminary financed emissions estimates, insights from scenario analysis as well as progress on climate-related opportunities, including launch of new products and initiatives.

2.7 Connecting with our stakeholders

We are committed to working collaboratively and exploring options with our partners, stakeholders and peers to deliver our climate ambition and achieve a better future for everyone. Listening, engaging and partnering with stakeholders helps to guide our thinking and improves outcomes for customers, society and the environment.

During 2020, NatWest Group continued to engage with investors, NGOs and other key stakeholders on the actions we are taking to play our part in addressing the climate challenge. We held two virtual roundtables with climate and environmental NGOs to get their feedback on our climate commitments and to help us consider different perspectives in our purpose-led decision making.

Tackling climate change is a significant challenge; Solving this will require UK and international industry, regulators and experts to come together and find solutions. We are determined to not just play our part, but to lead on the collaboration and co-operation that is so critical to influencing the transition to a low carbon economy.

NatWest Group has collaborated with various industry bodies and policy makers during 2020, some of which are listed below:

a. **Climate Change Committee:** NatWest Group were a member of the independent advisory group of experts to the UK Climate Change Committee that produced "The Road to Net-Zero Finance" that accompanied its Sixth Carbon Budget published in December 2020.

b. **Climate Financial Risk Forum:** NatWest Group is a member of the Climate Financial Risk Forum, co-chaired by the PRA and FCA, which aims to build capability and share best practice across Industry and financial regulators to advance the sector's responses to the risks from climate change.

c. **UK Government's inaugural Green Gilt:** NatWest Group and 31 other market participants, including investors, asset owners and financial institutions, presented a Green Gilt+ proposal to her Majesty's Government, highlighting the role that governments can play when issuing Green sovereign bonds. We are very supportive that the UK Government has decided to enter the Green sovereign market in 2021, alongside the other announcements such as the 10-Point Green Plan and TCFD reporting requirements.

d. **Just transition:** NatWest Group were on the Advisory Committee for the LSE Grantham Institute's Banking on a Just Transition report and project; and are members of its successor the Financing a Just Transition Alliance.

e. **International Capital Market Association (ICMA):** NWM Group was involved in ICMA's Climate Transition Finance Working Group to develop guidelines that will provide direction

to the metrics and methodologies defining issuers' transitioning strategies when raising funds in the debt capital markets.

f. **UK Housing Association Sustainability Reporting Standards:** Natwest Group was a key contributor to the UK Housing Association Sustainability Reporting Standards, which aims to bring consensus on how to measure and report on ESG performance in the social housing sector. Run by the Good Economy, the ESG Social Housing Working group is a collaboration of 18 banks and investors (including NatWest Group), housing associations, service providers and impact investing organisations that have led on the development of the new standard. The criteria in the new standard are aligned to international ESG frameworks and standards including SDGs, the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the ICMA and Loan Markets Association (LMA) Principles.

g. **Zero Carbon Homes Routemap and Charter:** NatWest Group worked with the West Midlands Combined Authority taskforce to develop a Zero Carbon Homes Routemap and Charter. The charter, which is now publicly available, sets out WMCA's aspirations for a more sustainable future. By embracing these principles, WMCA can build a region which drives zero carbon development and innovation, future proofs the economy and enables their communities to prosper for years to come. NatWest Group was the only bank to be involved in the design of the charter.

h. **Loan Markets Association:** NatWest Group is an active member of the Loan Market Association's working group for the Sustainability Linked Loan and Green Loan Principles. The principles published by the LMA, aim to facilitate and support environmentally and socially sustainable economic activity and growth via the loan market.

i. **Financial Services industry forums:** NatWest Group plays an active role in financial services industry wide climate-related forums including The Institute of International Finance (IIF), the Association for Financial Markets in Europe (AFME) and UK Finance. NatWest Group is a member of various UK Finance committees, including their Sustainability Committee, which helps provide input to consultation responses such as the UK's transition to a low carbon economy and setting industry standards.

J. **Climate and sustainable finance trade bodies:** NatWest Group is a member of several industry trade bodies on climate and sustainable finance, including RenewableUK, UK Sustainable Investment and Finance Association and UK Green Building Council. We engage on a quarterly basis to ensure collaboration and cooperation in influencing the transition to a low carbon economy.

NatWest Group is a signatory to a number of voluntary sustainability commitments and standards.

UN Climate Change Conference of the Parties (COP26)

NatWest Group is the principal banking partner of COP26, underscoring our determination to be a leading bank in addressing climate change.

The 2021 United Nations Climate Change Conference, also known as COP26, is the 26th United Nations Climate Change conference. It is scheduled to be held in Glasgow, Scotland, in November 2021 under the presidency of the United Kingdom.

United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking (PRB)

NatWest Group is one of the Founding Signatories of PRB, committing to strategically align its business with the Sustainable Development Goals and the 2015 Paris Agreement on Climate Change.

The Principles for Responsible Banking provide the framework for a sustainable banking system that responds to and drives today's expanding global sustainable development economy, and guide the banking industry to align itself with society's goals as expressed in SDGs and the 2015 Paris Agreement.

We are also part of the PRB Biodiversity sub-group which is focusing on developing indicators, metrics and methodologies for target setting on biodiversity.

We have also signed up to the United UNEP FI Collective Commitment to Climate Action (CCCA). The CCCA sets out how banks will align their services and lending with the objectives of the Paris Agreement.

PCAF

NatWest Group is the first major UK bank to sign up to PCAF. PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.

CDP

NatWest Group achieved a score of A- in the 2020 CDP Climate Change Survey.

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their climate and environmental impacts.

Principles for Responsible investment (PRI)

Coutts signed up to the Principles for Responsible Investment, an independent organisation supported by the United Nations, which encourages investors to use responsible investing to enhance returns and better manage risks.

Banking Environment Initiative (BEI)

The Banking Environment Initiative (BEI) is a group of global banks committed to pioneering actionable pathways towards a sustainable economy. The BEI co-produces horizon scanning applied research, develops leadership tools and convenes academic and industry collaborations. It is a member-led, not-for-profit group convened by CISL and initiated in 2010 with the support of The Prince of Wales.

NatWest Group is part of the overall BEI working group and has participated in projects including: Soft Commodities Compact, a voluntary initiative led by BEI and The Consumer Goods Forum; and BEI Financial Risks arising from Biodiversity Loss and Land Degradation.

2.8 Scenario analysis

NatWest Group is taking significant steps to develop scenario analysis capabilities to better understand and act on the implications of climate-related risks and opportunities for our business and customers. This aligns with the increased regulatory supervisory expectations on the management of climate-related risks using forward looking climate scenarios. It will help to ensure we can meet the requirements of the Bank of England 2021 Climate Biennial Exploratory Scenario (CBES) regulatory stress test that will explore the resilience of the financial system to the physical and transition risks from climate change. This section summarises some of the risks we have identified by undertaking forward-looking climate scenario analysis and how we plan to manage these risks.

During 2020, we have developed and tested a methodology to use scenario analysis to quantify the size of a range of climate-related risks and opportunities for our commercial and retail customers. Since climate-related risks are unevenly distributed and can be highly specific to either locations or individual companies and assets, we have taken a granular and customer specific modelling approach as recommended in the Bank of England CBES 2021 Discussion Paper (December 2019). This first generation of climate modelling will help to provide the foundation for our scenario analysis capability build to support execution of the CBES in June 2021.

Scenario analysis allows us to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise.

Climate data and sub-sector information availability, accessibility, and suitability for financial risk analysis, as well as climate-related risk modelling capabilities are still nascent and evolving. The activity carried out in 2020 has been the first step in what will be an ongoing development of NatWest Group's data, modelling and risk management capabilities for managing climate-related risks. While we continue to leverage insights from this preliminary scenario analysis exercise as part of our wider planning and risk management process, any insights from this analysis must be assessed in light of these limitations. There are also other limitations associated with using climate-related data, scenario analysis, models and climate metrics for decision-making (see section 5.7 for further details).

We have carried out this analysis in partnership with a third-party expert and used their proprietary climate risk model along with our own models to understand the implications of different climate scenarios for credit metrics.

Our approach to climate scenario analysis is summarised below:

a. Our starting point for modelling climate-related risks are three climate scenarios, each of which includes a trajectory of carbon prices and emissions over time, and an associated change in global temperature. They are drawn from a set of scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). NGFS has developed the scenarios to provide a common starting point for the financial sector to analyse physical and transition climate-related risks.

The three scenarios analysed were:

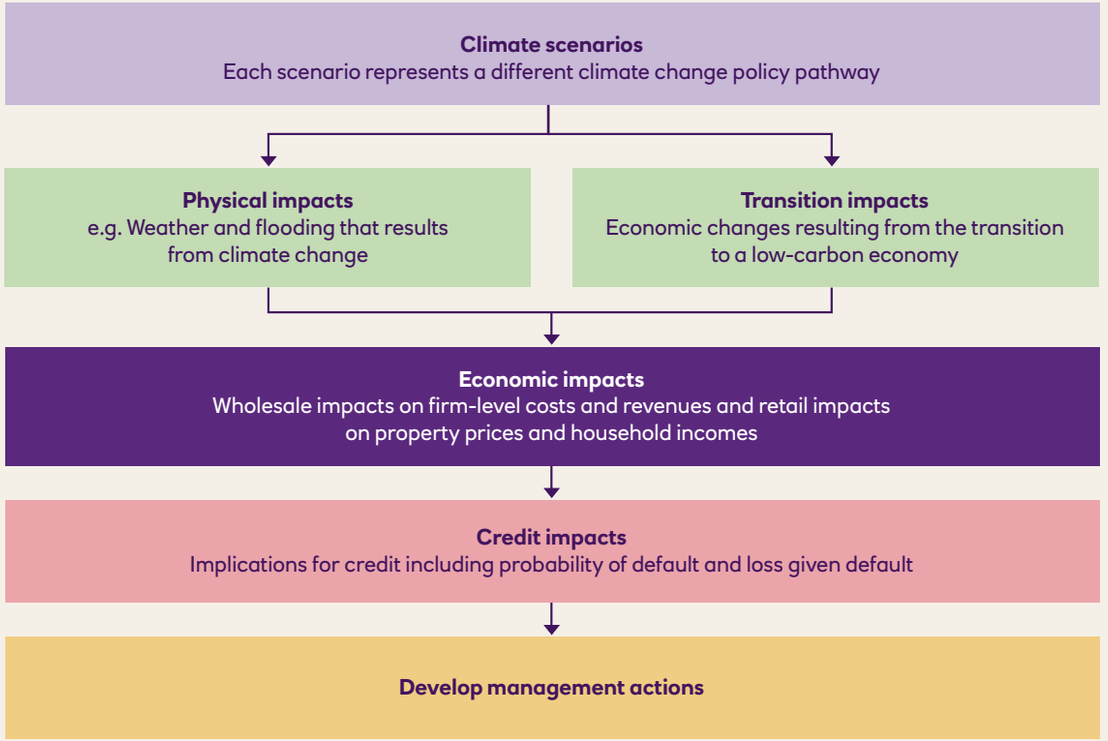
Hot House World: no new policy action takes place to reduce greenhouse gas emissions, and as a result they continue to grow. This leads to over 3°C of warming and severe physical risks.

Orderly: immediate and global action to reduce emissions in a measured way, at a rate that is fast enough to keep climate change within 2°C with 67% probability; leading to Net Zero Carbon emissions before 2070.

Disorderly: ambitious new climate policies are introduced, but only in 2030. Emissions are sufficiently limited to keep global warming below 2°C, but the transition is faster than in the Orderly scenario as a result of delayed action, leading to larger transition risks for households and firms.

We examined the impacts of these three scenarios on a selected sample from our balance sheet comprising wholesale and retail customers. Within our wholesale lending portfolio, we considered the implications for our corporate exposures across a range of sectors including oil and gas, power utilities, mining and metals and automotive. Within our retail portfolio we considered the implications for a small sample of our mortgage lending in England and Wales.

The image below summarises our approach to climate scenario analysis



b. Our analysis focused on both transition and physical risks. The table opposite includes the risks modelled for scenario analysis purposes.

c. We translated each scenario into economic impacts for firms and households, taking both physical and transition risks into account. This is done by modelling granular transition and physical risk shocks disaggregated by sector and geography, and integrating this into a micro-economic and financial model of firm-level impacts and response, accounting for abatement and adaptation action, and competitive dynamics within sectors.

d. We used the resulting flow of costs and revenues to assess the impacts on the value of customers in the NatWest Group's portfolio, and used the existing credit risk models (adapted to incorporate the climate-related risk factors) to evaluate the impact on credit risk for the individual customers.

e. Based on preliminary insights from the scenario analysis work, we are working to develop response plans, a number of which will require direct engagement with our customers around their own mitigation plans.

We modelled physical and transition risks over the period 2020-2050. To ensure that we captured physical risks appropriately, and in line with the expected treatment in the CBES, for the 'Hot House World' scenario we assumed the physical risks from the period 2050-2080 are experienced over the period 2020-2050. The modelling framework is sufficiently flexible that it can be amended to look at different time horizons and climate scenarios should that be required in future.

Risks modelled for scenario analysis purposes

Risk type	Impact channel	Description of risks modelled
Transition risks	**Demand destruction**	Reduced demand for products such as fossil fuels pushes down prices for producers and results in lower profit margins and stranded assets.
	Demand creation	Increasing demand for products and materials (such as lithium) increases demand and profits for companies involved in these supply chains.
	Direct carbon costs	Emissions-intensive companies face a cost burden as a result of carbon pricing.
	Abatement	Companies can reduce cost burdens by reducing emissions with abatement measures.
	Competition	Differences in the relative competitiveness of companies and their ability to pass costs through to customers affects their market share and profitability.
Physical risks	**Coastal and river flooding**	Rising sea levels and changes in precipitation patterns over time lead to changes in flooding patterns and frequency.
	Chronic impacts	Long-term effects such as heat waves and changes in precipitation have an impact on labour productivity and agricultural yields.
	Adaptation	Firms and governments can take measures take to adapt to climate change – flood defences for example – which entail costs but mitigate the physical impacts.

Scope of scenario analysis

A limited sample comprised of certain wholesale customers and a small portion of the residential mortgage portfolio was used as the basis of model development work during 2020. The analysis served two purposes: firstly, it supported the ongoing development of our climate-related risk analytics and data capabilities; and secondly, it provided preliminary insights into the key drivers of physical and transition climate-related risks in our portfolio.

For our wholesale portfolio, we selected a range of sectors based on data availability and including those expected to be most exposed to climate-related risks such as oil and gas, mining and metals, power utilities and automotive. Within these sectors we analysed around 2,100 corporate customers, on an individual basis, allowing us to review the transition and physical risks specific to them.

For the remaining exposures in these sectors we analysed the risk using sector and region averages to simplify the analytics. In total this represented around half of the Exposure at Default for corporates at December 2019. Other sectors that posed greater data challenges such as agriculture and commercial real estate will be reviewed as part of the ongoing model development and data strategy, and will be incorporated over 2021.

For the residential mortgage portfolio, a small sample (around 1%) of our England and Wales mortgage was selected, containing a spread of both energy efficiency and flood risk exposure as these are expected to be the key climate-related risk drivers of our residential mortgage exposure.

Limitations of climate-related risk modelling

Modelling climate-related risks is a relatively new activity for financial institutions, and there are inevitable limitations to modelling tools and approaches. Integrated modelling of climate, energy, land use and economic system is inherently complex and relies on assumptions and parameters that are subject to uncertainty. These include physical parameters such as sensitivity of the climate system to greenhouse gas concentrations, parameters relating to the cost and availability of low carbon technologies, and economic and social parameters such as future consumers' response to higher energy prices and the scope for expanding public transport. Some relevant datasets are not yet available or are incomplete. NatWest Group is engaged in several activities, including direct engagement with our corporate customers to address these gaps. In the interim, reasonable proxies or simplified methodologies have been used for the current exercise as detailed in section 2.8.3.

The modelling approach deployed for this analysis does not incorporate all types of climate-related risks. Some risks such as wildfires have not been included in this analysis. Wildfire risk impacts are likely to be small for NatWest Group, since they account for only 2% of annual average losses for insurable natural catastrophe damages globally, and expected to be even lesser in the UK, where NatWest Group's exposure is mostly located. Other more systemic risks such as the impact of climate change on incidence of conflict, migration, and human health are beyond the scope of the analysis.

Companies' climate strategy such as ambitious decarbonisation targets are also outside the scope of the model. Instead, the modelling uses observed financial and ESG data to model future performance. This means that companies' climate goals are only recognised by the model to the extent that they have already been translated into changes in revenues or assets. The model is also inherently limited in its representation of clean technology 'unknown unknowns', such as companies and technologies that have not reached scale or achieved widespread deployment.

The analysis uses a scenario-based approach. Scenarios provide what NatWest Group considers to be plausible internally consistent future pathways that aid decision-makers to identify possible risks and their magnitudes. In our analysis, we do not make a judgment on the likelihood of any one scenario relative to others; and by design, analysed scenarios do not encompass all possible future pathways and their associated risks.

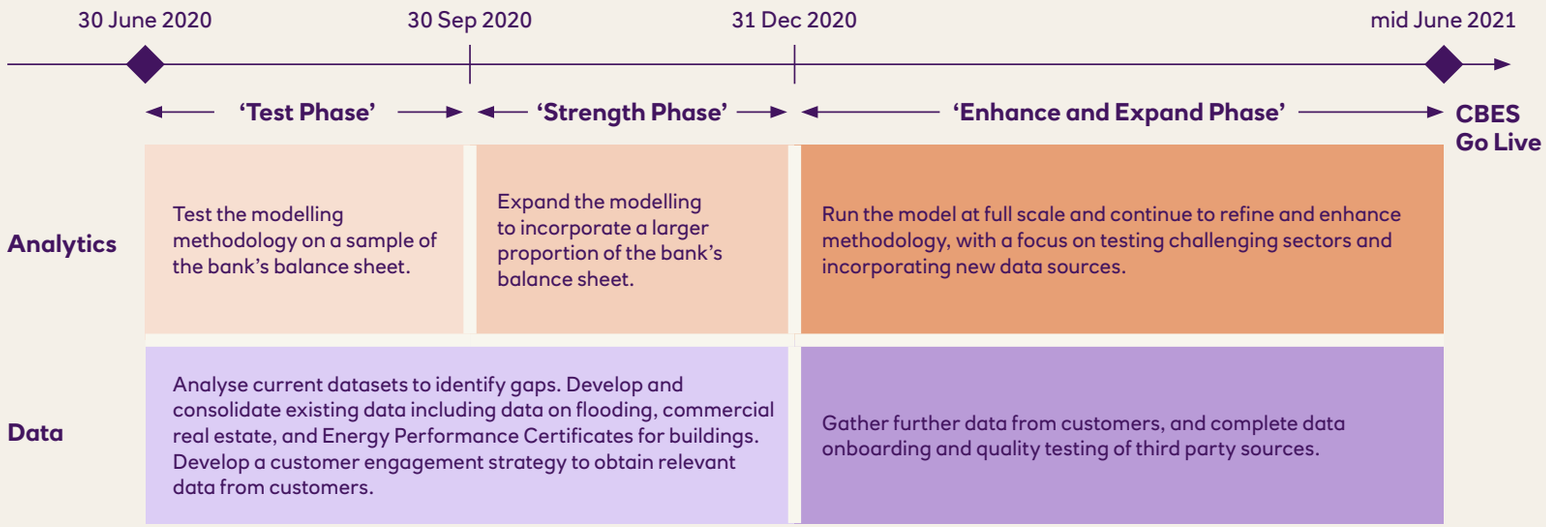
The climate-related risk toolkit will continue to be developed and expanded in future to include additional climate-related risks where possible; with a focus on improving our understanding and management of physical and transition climate-related risks. For example, with respect to transition risk, the capability to model the strategic plans that individual companies have adopted to reduce their own Scope 1, 2, and 3 emissions will be developed. With regards to physical risk, the ability to investigate the impact of varying degrees of protection of customers' assets to physical perils (such as flood protection) will be developed. These developments will be incorporated as appropriate into CBES analytics.

Deepening NatWest Group's capabilities

Over the period 2020-2021, NatWest Group is developing its ability to measure and manage climate-related risks. Preliminary insights discussed in this section reflect the 'Test' and 'Strengthen' phases of our work, where we have developed and tested the modelling methodology, and identified key gaps in data coverage to inform actions to mitigate these.

During the first two quarters of 2021, we will be engaging directly with our largest corporate customers to improve our understanding of their exposure to climate-related risks and strategic mitigation and adaptation plans to manage those risks. We will also be expanding the coverage of our modelling from a limited sample to cover a higher proportion of exposures ahead of the CBES in H2 2021. We will incorporate sovereign risk by leveraging the new Climate Change Vulnerability Index developed in 2020 to identify those countries most vulnerable to climate change (see section 4.2 for more detail).

Scenario analysis data and analytics timeline



2.8.1 Scenario analysis insights

Recognising that the preliminary analysis carried out over 2020 was the first step in a multi-year development of capability and data with respect to climate scenario analysis, any insights and observations must be treated with appropriate caution (refer section 5.7 for further detail). Sections below detail preliminary insights and progress in assessment of initial management plans to inform the development of the wider NatWest Group climate strategy and risk management.

Wholesale insights

1. **Climate-related risks can vary considerably across sectors and companies.** Among the sample tested so far, in scenarios with stronger climate action ('Orderly' and 'Disorderly'), some companies see an increase in expected market value with others losing value. Since risks are distributed across sectors and companies, NatWest Group's diversified lending portfolio is expected to limit the impact of these variations.

2. **While climate-related risks are distributed, some sectors are particularly exposed** e.g. automotive, oil and gas, mining and metals. Companies in these sectors can experience large changes in creditworthiness and valuation in scenarios with stronger climate action. NatWest Group is progressing work to assess financed emissions related to loans and investment to these sectors. In addition, we are engaging with customers as part of the on-going work on CTP and other climate ambition initiatives.

3. **In scenarios with stronger climate action, there is potential for large variation in companies' performance within the same sector:** Among the companies tested, variation in climate impacts between companies in the same sector can be as large as variation between different sectors. Differences in individual companies' performance is driven by factors such as differences in their current carbon footprint and product mix. Recognising these company-specific differences, NatWest Group will continue to develop its granular customer-level analysis of climate-related risks throughout its portfolio. In addition, work is on-going to train relationship managers as they engage with customers to both manage risk and support their transition.

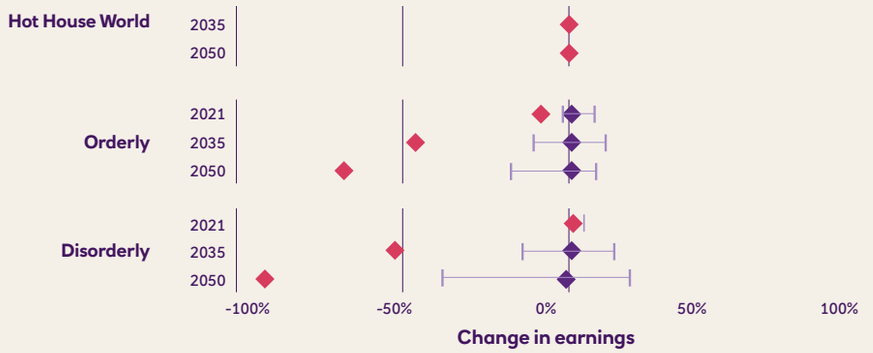
4. **New growth sectors and new opportunities:** Many companies perform significantly better in scenarios with stronger climate action, including low carbon utilities and cleantech manufacturers. As part of its climate ambition, NatWest Group continues to support customers through £20 billion climate and sustainable funding and financing and by reserving at least 25% of the spaces in our Entrepreneur Accelerator hubs for businesses where their core offering supports sustainable environmental activities (including climate solutions). In addition, Commercial Banking has introduced a framework to encourage activity that supports the sustainability and climate change agenda. As part of the capital allocation process, corporate customers that are aligned with sustainability and climate change benefit from a lower allocation of capital allowing more competitive pricing. This benefit can also be applied at an individual facility level where a customer seeks funding for a specific, Climate Positive activity (e.g. land transport business looking to fund a fleet of EVs). This will help to reshape NatWest Group's portfolio as it moves towards more sustainable transactions and sectors.

5. **A disorderly transition would be most disruptive**: with a greater impact on valuations in the Disorderly scenario than the Orderly scenario. In the disorderly scenario, the economy has to change at a much faster rate due to the action in cutting emissions commencing a decade later and therefore greatly impacting high-emitting sectors like energy. The impact on valuations also exceeded those observed in the Hot House World scenario.

Detailed customer level analysis included in scenario analysis

As we have analysed individual customers, we can look at a customers' performance over time in each of the three scenarios. The charts below show the earnings of an example oil and gas company (Company A) between 2020 and 2050 by scenario, alongside the performance of all the listed equities in the sample of customers tested. The mean climate impact is relatively small in all scenarios throughout the modelled period, but there is significant variation between individual companies, with some gaining and others losing earnings. As an oil and gas company, Company A is highly exposed to climate risks and scenarios with stronger climate action (Orderly and Disorderly) have a large impact on its valuation.

Change in earnings for Company A and all listed equities analysed



The analysis also identifies drivers of change in company earnings. In the Orderly and Disorderly scenarios, the most significant drivers for Company A are destruction of demand for its oil and gas products, together with higher carbon costs relating to its operations. These are partly offset as the company passes some of these higher costs on to consumers. The company also experiences reduced earnings because of physical risks (such as flood damage) in all three scenarios; these are highest in the Hot House World scenario.

Change in earnings for Company A in 2035 by scenario

Retail insights

1. **Future climate-related risks amplify current risks.** Initial modelling with a limited sample indicates that physical and transition risks will intensify over a period of time, example properties with poor EPC ratings or those with existing risk of flooding. As stated in section 2.2, NatWest Group has launched various initiatives like Green Mortgages to support customers transition to low carbon economy.

   As part of its climate ambition, NatWest Group will work with customers who are particularly exposed to improve their energy efficiency.

2. **Geographical diversification helps contain the impact of physical risks.** Since flood risk is highly geographically specific, NatWest Group's regionally diverse mortgage portfolio limits exposure to a particular region in the UK. See section 5.2.2 for proportion of properties at high and very high risk of flooding in the Retail Banking mortgage portfolio.

3. **There is significant regional variation in physical hazards.** Acknowledging this insight, in 2021 NatWest Group will build more granularity into our flood risk modelling to understand precisely where risks lie and prepare management plans to address these insights.

4. **Transition risks are more prevalent than flood risk,** which is concentrated in certain regions or properties. This may impact property valuations as a result of rising energy bills and retrofit costs for inefficient properties. NatWest Group will continue to raise customers' awareness of the importance of increasing the energy efficiency of their homes.

Implications for risk management and decision-making

We will continue to strengthen our ability to effectively manage climate-related risks during 2021 and beyond, by expanding our own analysis from an initial sample to cover NatWest Group's balance sheet more comprehensively, in line with the 2021 CBES exercise requirements. We will also further develop both our analytical tools and implementation of climate-related risk insights into our strategy and decision making. A key part of this will be ensuring the different time horizons over which climate-related risks can manifest are factored into the strategic decision-making process appropriately. Recognising the challenges of climate scenario modelling, we are exploring a range of options to support our review and interpretation of the outputs. This includes benchmarking with wider academic literature, industry collaboration to share learnings and detailed review and challenge of methodologies with internal and external subject matter experts.

Whilst not a primary focus of the 2021 CBES exercise, learnings from this first phase of climate scenario work are also being used to support the analysis of operational risk within NatWest Group.

2.8.2 Scenarios used

Scenario analysis uses three scenarios published by NGFS. Each scenario achieves a different expected temperature in 2030, 2040, and 2050 relative to pre-industrial levels. This results from changes in CO_2 emissions over time, driven changes in carbon prices applied to economic activity.

As the Hot House World scenario assumes no new policy action to reduce GHG emissions, these continue to grow throughout the modelled period, as does demand for oil, coal and gas. Consequently, the Hot House World scenario results in the largest increase in global temperatures, and therefore the largest physical risks from climate change.

The Orderly and Disorderly scenarios have significantly higher carbon prices, resulting in lower demand for oil, gas and coal, and higher demand for electricity, than the Hot House World scenario. These scenarios reduce the extent of climate change relative to Hot House World, and result in a much larger shift in the energy mix.

The table below summarises some of the key differences between the scenarios. The impacts of each scenario are assessed against a relevant hypothetical `baseline'. This baseline assumes no change in the climate policy environment or in the climate itself, compared to today. This means that in the baseline, there are no additional physical risks for companies arising from climate change relative to what they experience today; and the current policy environment for GHG emissions is also unchanged over time. To construct the baseline scenario we combine transition effects (technological and policy changes) from the Hot House Scenario and physical risks associated with current level of global warming (+1.1°C above pre-industrial average).

The scenario analysis assumes that risks of the baseline are priced into asset values already, but not the additional risks in the three scenarios. The results for each scenario provide an indication of climate risks and their potential scale under very restrictive assumptions, and don't represent a forecast of the actual climate-related risks faced by NatWest Group.

		Hot House World			Orderly			Disorderly		
Year	**Unit [2]**	**2030**	**2040**	**2050**	**2030**	**2040**	**2050**	**2030**	**2040**	**2050**
		Relative to preindustrial levels (1850-1900)								
Global temperature	°C above preindustrial levels	+1.7 [3]	+2.2 [3]	+2.9 [3]	+1.5	+1.7	+1.7	+1.5	+1.8	+1.8
		Absolute values			**Relative to Hot House World**					
Greenhouse gas emissions	$GtCO_2eq$/year [2]	61	66	69	-21	-40	-51	-2	-38	-61
Carbon prices [1]	US$2019/$tCO_2$ [2]	7	10	11	+120	+200	+330	+10	+410	+820
Oil demand [1]	Mbbl/d [2]	110	120	130	-15	-30	-50	-10	-40	-70
Gas demand [1]	Bn m^3/year [2]	3,800	4,700	5,900	-3	-600	-1,400	1,300	-1,900	-4,500
Coal demand [1]	Mtce/year [2]	5,700	5,900	5,800	-2,700	-5,000	-5400	-800	-4,300	-5,700
Electricity demand [1]	EJ/year [2]	110	130	160	+40	+90	+130	+30	+50	+120

Source: NGFS Marker Scenarios (amended)

Notes:

(1) Figures are rounded.

(2) $GtCO_2eq$/year is gigatonnes of carbon dioxide equivalent per year; US$2019/tCO2 is U.S. Dollars per tonne of carbon dioxide (2019 dollar values); Mbbl/d is million barrels a day; Bn m3/year is billion cubic metres per year; Mtce/year is million tonnes of coal equivalent per year; EJ/year is exajoules per year.

(3) Temperature rise is equivalent to the CBES requirement, which assumes 2080 risks occur in 2050 (i.e. +2.9°C increase in 2050 is the temperature increase projected in 2080 under the Hot House World scenario).

2.8.3 Approach to data

As climate risks are not evenly distributed, customer specific granular data is critical to properly understand and manage climate-related risks. This section includes details on approach used to model specific sectors, data limitations we identified, and approach to address these limitations.

Corporates

Approach used: We selected a sample of 2,100 customers across a range of sectors including those expected to be most exposed to climate-related risks such as oil and gas, mining and metals, power utilities and automotive. For the remaining customers in these sectors, we analysed the risk using sector and region averages. We considered the change in earnings for each individual customer. We then used our credit models to quantify the impacts for probability of default, loss given default, and expected credit loss based on changes in costs and revenues.

Data limitations: While the Group has detailed financial information on its customers, information on their environmental performance, such as their carbon footprint, is not available in many cases. This is particularly true for non-listed companies. In this initial phase of analysis, we created proxy emission footprints for these companies by using the CO_2 intensity averages for the relevant sector and region. In some cases, we also lacked asset-specific information such as location that would allow for a fully granular evaluation of companies' physical risk exposures.

Action taken: To enable us to progress the scenario analysis and overcome the data limitations, we sourced data from leading data providers like Institutional Shareholder Services (ISS), Trucost and Factset on customers' GHG emissions, granular financial data including revenue by activity and legal entity, and supply chains. For the energy

sector, where climate-related risks are particularly large and company-specific, we are acquiring detailed data on oil and gas and renewables emissions from data provider Rystad. During the first half of 2021 we will also engage directly with customers to improve available data on our largest exposures in the highest risk sectors.

Commercial real estate and residential mortgages

Approach used: For commercial real estate and residential mortgages we calculated the change in costs for owners arising from increased energy prices and retrofitting energy efficiency measures, along with damage costs arising from flooding risks. These were translated into changes in property values and default risks for a representative sample within our portfolio. In this phase of work, we used postcode-level data for flood and subsidence risk in residential buildings and national averages for commercial real estate flood risks.

Data limitations: Exposure to flood and subsidence risks and energy efficiency are both highly specific to individual properties. In this first stage of our analysis, some of the data on these factors was not available at this level of granularity. While we achieved valuable insights using available data, we recognised the need to use building-specific data both for ongoing modelling of climate-related risks and to enable the Group to support its customers in transitioning to a more sustainable future.

Action taken: We are currently integrating and standardising data on EPC certificates from the UK's Ministry of Housing and using modelling to predict ratings where data is unavailable. We are also working with Airbus Defence and Space to obtain detailed flood risk data for the UK. We are also consolidating multiple detailed datasets on commercial real estate to enable asset-level analysis of climate-related risks.

Other sectors

Agriculture: Agriculture includes a wide range of different activities with a range of associated exposures. Detailed information on customer specific activities and emissions intensity was not available during the phase of modelling. As a result, we modelled the sector's exposure using sector-average values. We are exploring ways to gather more granular data on the agricultural sector.

Financial institutions: Since the financial sector's modelling of its own exposure to climate-related risks is in its infancy, there is limited data available to date. In this modelling we have used NatWest Group's own exposures as a proxy for that of other financial institutions. During 2021, we will be refining and developing this data set by a combination of direct customer engagement and publicly available external disclosures, such as Pillar 3 reports.

2.8.4 Working with stakeholders on scenario analysis

Recognising the unique challenge posed by climate-related risks to the banking sector, we have participated in a number of cross industry initiatives aimed at developing capabilities in data, scenarios and analytics. We are working with several other UK banks to explore initiatives designed to improve the industry's collective understanding of climate scenarios, and methodologies for translating these scenarios into physical and transition risk impacts. Some examples of collaboration are noted opposite.

Macroeconomic impact modelling

NatWest Group has carried out macroeconomic modelling of climate-related risks to better understand the potential risks facing government borrowers in addition to retail and commercial customers. Integrated assessment models, as used by NGFS, are not well suited for modelling the macroeconomic effects associated with physical and transition risks, such as national GDP, unemployment and interest rates. Since these economy-wide impact channels drive creditworthiness for governments and other key customers, we collaborated with the National Institute of Economic and Social Research (NIESR) and a third-party expert to model key macroeconomic indicators.

NIESR deployed the National Institute Global Econometric Model (NiGEM), which enables modelling of the macroeconomic implications of climate shocks. The model was also recently used by the Banque de France and De Nederlandsche Bank in conjunction with their own suite of models to understand macroeconomic climate impacts. NatWest Group then applied its own credit models to understand the implications across wholesale and retail customers.

Given the importance and novelty of this research for the financial sector, NatWest Group has committed to share the learning with other financial institutions and regulators. NatWest Group together with collaborators has organised several external workshops and made the scenarios publicly available.

UNEP FI

We are participating in a collaboration between UNEP and the global financial sector, to mobilise private sector finance for sustainable development. In 2020, we took part in Phase II of the UNEP FI pilot alongside 38 peer banks. The pilot is a collaborative learning activity that seeks to improve the measurement and disclosure of climate-related risks and opportunities.

The pilot had several workstreams and these included analysis of physical and transition risk, disclosures and TCFD reporting. It was a collaborative initiative with UNEP FI tailoring learning and materials as requested by members. The pilot resulted in a wealth of climate education and detailed learning materials, some of which were shared through the Climate Academy.

One of the workstreams concerned the physical risks caused by changing climate. In the UK, extreme weather events such as flooding will increase in both intensity and likelihood. As part of this, we conducted an exploratory climate scenario analysis on future flooding impacts on our mortgage portfolio, using a combination of analysis within the Group and the UNEP FI tool to estimate future risks resulting from increased flooding. This was published as a case study in the UNEP FI report "Charting a New Climate". The analysis will also form a part of benchmarking for the CBES 2021 exercise as a data point to compare with further analysis and help build an increasingly accurate picture of any trends.

During 2021, we will continue collaborating though Phase III of the banking pilot. Phase III will explore in more depth, climate stress testing, the integration of physical and transition risk assessments, and sector-specific risks and opportunities.

NatWest Group will continue to lead and participate in other initiatives that strengthen our own understanding and management of climate-related risks as well as those of the financial sector more broadly.

3. Governance

The Board and senior management team oversee and manage NatWest Group's response to climate change.

3.1 Board oversight of climate-related risks and opportunities 31
3.2 Management's role in assessing and managing climate-related risks and opportunities 32

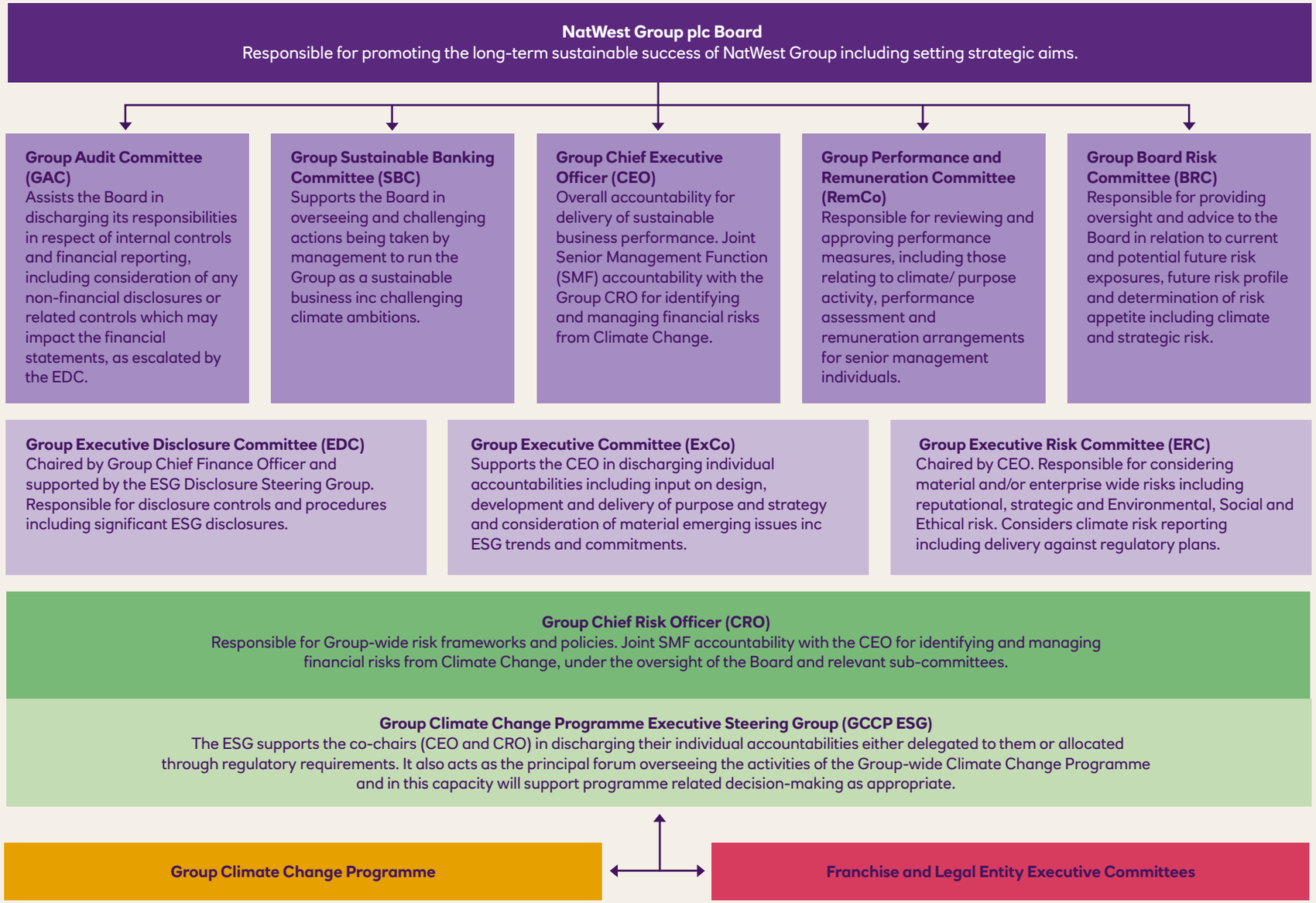
Climate governance

The structure chart outlines how climate governance operates at Board, Board Committee, Executive and Management Committee levels. This integrated model uses existing committees and builds on their areas of responsibility and expertise.

During 2020 activities have focused on building knowledge, clarifying roles and responsibilities, and embedding strategic and risk appetite integration, aligned to NatWest Group's climate ambition.

This climate-related disclosures report represents an additional step towards enhancing transparency and engagement with stakeholders as NatWest Group develops its approach to evaluating climate-related risks and opportunities.

Refer to the Governance and remuneration report in the 2020 Annual Report and Accounts for further details on NatWest Group's governance structure.



3.1 Board oversight of climate-related risks and opportunities

Board monitoring and oversight of climate-related risks and opportunities is supported by management reporting on climate, climate strategy, ambition and risk management activities, which feature on the Board and Board Committee agendas.

In particular,

- The Board oversees progress made on our Purpose-led strategy announced in February 2020. In October 2020 the Board received a comprehensive update on NatWest Group's progress towards becoming a purpose-led bank and progress against external sustainability commitments, including the climate ambition, covering achievements to date and future priorities. A Board climate training session was also held in October 2020, which updated the Board on progress towards achieving our climate ambitions and supported directors and management in understanding and assessing the financial risks and opportunities from climate change that affect NatWest Group.
- The Group Board Risk Committee discusses financial risk from climate change on a quarterly basis. These updates focus on risk-related matters such as scenario analysis and stress testing, data and investment challenges.
- The Group Sustainable Banking Committee's annual deep dive session on climate change in June 2020 focussed on climate ambition this year, with external input from the Green Finance Institute followed by a challenge session with management on current progress and future opportunities.
- The Group Audit Committee considers non-financial disclosures related to the broader ethical, social and governance agenda.
- The Group Performance and Remuneration Committee oversaw the inclusion of Climate goals, performance measures and targets as part of Senior Executive remuneration for the 2020 financial year and updated targets have been set for 2021. Refer to the Governance and remuneration report in the 2020 Annual Report and Accounts for further details.

Further details on Board Committee activities are included within the Committee Chair Reports in the Corporate Governance section in the 2020 Annual Report and Accounts.

A review of the Terms of reference for Board Committees was conducted to ensure appropriate oversight of climate across the Committees in support of the Purpose-led Strategy. The re-designed Board and Committees' reporting template also now mandates an explanation on how proposals or updates presented align to NatWest Group's Purpose-led Strategy (including climate purpose) as well as detailing stakeholder impacts (including community and environmental) which helps identify climate-related issues.

Board knowledge and expertise

In addition to approving the Purpose-led strategy and receiving progress updates at the spotlight in October, the Board also received targeted training on the topic to support ongoing oversight and upskilling. This has included a learning module on the impact of climate change on financial services, and a Board Climate training session in October 2020. Management's Climate Advisor, Lord Stern of the Grantham Institute, provided the Board with an external perspective and the session also covered progress against strategic aims and updates on key areas including the Group-wide Climate Change Programme, the Bank of England's CBES and Paris alignment. Expert external support continues to be valuable as the organisation builds its own capabilities, with optional training from the Cambridge Institute for Sustainability Leadership being offered to Directors. A number of directors of the Board and subsidiaries have undertaken this training.

This year changes to the Board Skills Matrix have been implemented, including to incorporate climate and broader ESG related expertise. Further information on the approach to Board composition and succession planning are included within the Governance and remuneration report in the 2020 Annual Report and Accounts.

3.2 Management's role in assessing and managing climate-related risks and opportunities

In October 2020 as part of a scheduled review, the Board approved the allocation of Senior Management Function responsibility for identifying and managing financial risks from climate change jointly to the CEO and CRO. This updated accountability supports the CEO's ownership of our strategic climate purpose across the organisation and will drive delivery across the three lines of defence. This responsibility includes ensuring that the financial risks from climate change are adequately reflected in risk management frameworks, and that the firm can identify, measure, monitor, manage, and report on its exposure to these risks.

A Group-wide Climate Change Programme (GCCP) continues to support the delivery of NatWest Group's climate-related objectives. The GCCP is overseen by an Executive Steering Group (GCCP ESG) which is responsible for coordinating the NatWest Group response across climate-related regulations, risks and opportunities. The GCCP ESG is co-chaired by the CEO and CRO, reflecting the materiality of this agenda.

The GCCP ESG includes cross-franchise, functional and entity representatives from across NWH Group and NWM Group; and ensures alignment of underlying franchise initiatives and working groups.

A core central programme team led by a dedicated Group Programme Director supports the GCCP ESG and coordinates activity across a series of delivery workstreams linked to our climate ambition, covering:

Risk and stress testing framework

Managing the financial and non-financial risks of Climate Change.

Opportunities and Returns

A leading UK and RoI bank to address the climate challenge; Helping end the most harmful activity; Accelerate the speed of UK transition.

Measurement and Reporting

Quantify our total climate impact, and work towards the ambition to at least halve the climate impact of our financing activity by 2030.

Own Operations

Climate Positive by 2025.

A series of 'Strategic Transversal' workstreams complement these delivery pillars and the wider business. These include:

Data

Collection and aggregation of Climate specific data elements to feed decision making.

Education

Educating our colleagues on Climate Change.

Communication

Coordinate internal and external communications.

Each of the GCCP workstreams has a nominated Accountable Executive (AE) at franchise/ functional CEO level and Senior Responsible Officer (SRO). The SRO is the individual accountable for an investment programme ensuring that it is initiated to best achieve value for money and that it achieves its delivery objectives, outcomes, and benefits. These AE and SROs also have responsibilities to coordinate Climate change related efforts across their own franchise/functions and legal entity (where appropriate).

Each month, the GCCP ESG reviews a progress update, key delivery issues and 'spotlights' appropriate to key decisions required to further climate ambition. Where required, key decisions are then escalated into executive governance for final approval.

As part of the GCCP, the Climate Opportunities Group manages delivery of climate-related opportunities. This forum is an evolution from the Commercial Banking Division Green Forum in place since 2011 and will complete ten years of delivering climate opportunities for the bank in 2021. Members meet on a monthly basis to oversee delivery and review progress against climate opportunities for customers, in order to support the bank's climate ambition. The forum is co-chaired by Chief Operating Officer, Commercial Banking and Managing Director, Retail Banking and includes representatives from both franchise and functions. Key responsibilities include:

a. To own, manage and lead Retail Banking, Commercial Banking, Private Banking, RBSI Limited and NWM Group opportunities response to the emerging Climate and Sustainable Finance market.

b. To deliver the climate and sustainable finance opportunities-related ambition and goals, in line with NatWest Group climate ambition.

c. To oversee development of new products and initiatives to help customers transition to a low carbon economy.

4. Risk Management

4.1 Identification of climate-related risks 34

4.2. Managing climate-related risks and integrating these in risk management 36

The risks associated with climate change are complex and pervasive. Climate risk is classified as a principal risk and also considered in relation to a number of other closely correlated financial and non-financial risks. In particular, its assessment and management requires a strategic approach that considers how actions taken today may affect NatWest Group's current and future risk profile.

Climate change represents inherent risks to NatWest Group, not only from its impact on the global economy and the businesses of its customers, but also in potential effects on asset values, operational costs and business models as the essential transition to a low carbon economy accelerates.

NatWest Group classifies climate-related risks as either physical risks – those that arise from the physical effects associated with changes to the climate such as rising temperature, changing weather patterns and extreme weather events – or transition risks, which are those that may arise from the shift to a low carbon economy.

We recognise the cross-cutting causal nature of climate risk and during 2020, continued to integrate climate risk into the risk management framework. In addition, to provide immediate focus, we have adopted a dual approach and climate risk has also been recognised as a principal risk. This supplements a long term approach to comprehensively identify and assess the impacts of climate change on other principal risks, whilst providing immediate and dedicated profile on climate risk management.

4.1 Identification of climate-related risks

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.

During 2021 NatWest Group will assess and report on climate risk as a principal risk. The risk will have a dedicated policy, appetite statement and risk appetite measures implemented in accordance with the EWRMF. This approach supplements continued enhancements to risk management toolkits which will ensure comprehensive identification and assessment of climate risk impacts upon other principal risks.

Some examples of work done during 2020 to incorporate climate as a causal factor into existing principal risks include:

- Guidance was issued to ensure appropriate consideration of climate-related risk in internal risk and control assessments.
- Climate risk was included as a factor in setting sector oversight classifications, which drive the frequency and level at which sector credit risk appetite is reviewed. Within the wholesale portfolio, thirteen sectors were identified as exposed to heightened climate risk based on this initial analysis of transition and physical risks.
- For the residential mortgage portfolio analysis was completed at property level to assess transition risk by reviewing energy efficiency of properties, and physical risk though exposure to flood risk.
- Within operational risk, a scenario analysis pilot was performed on the Group's operations in India to assess the potential effects of climate driven events including disruption to business services, damage to physical assets and health and safety.
- Enhancements have been made to the ESE Framework to mitigate reputational risk from carbon intensive sectors and support the transition to a low carbon economy. This includes reduction in coal lending thresholds for the mining and metals and power generation sectors from 40% to 15%. In addition, prohibitions on project financing for new exploration in the oil and gas sector, including fracking were put in place.

Preliminary scenario analysis work carried out during 2020 has provided insights into potential impacts on credit metrics related to wholesale and retail portfolios. In addition, preliminary estimates of financed emissions for four sectors have been developed during 2020. Work during 2021 will focus on enhancing risk management processes and tools to manage and mitigate climate risks within wholesale and retail portfolios.

During 2020 we have made progress in understanding the size and drivers of climate-related risks for our portfolio, these are informed through use of existing tools within the EWRMF in addition to targeted interventions.

Regular assessment as a Top Risk has provided the Board Risk Committee visibility on our identified exposure and progress made during the year to enhance our capabilities. Consideration of climate risk within internal risk and control assessment and targeted assessment activity, including the use of scenario analysis, has resulted in a number of responses integrated within principal risk management. The methodologies used have assisted in understanding where risks are impacted in the short (1-5 years), medium (10 years) and long-term (30 years). Reporting of climate risk as a principal risk during 2021 will further enhance and mature identification of potential risks which may arise.

The table below illustrates examples of climate risk events, consequent potential impacts on NatWest Group and our customers and the linkage to other principal risks.

	Transition risks				Physical risks	
Risk sources	**Policy and legal**	**Technology**	**Market**	**Reputation**	**Acute**	**Chronic**
Example events	• Increased GHG emissions pricing in order to incentivise movement to renewable energy sources. • Enhanced regulatory environment and mandated requirements: may introduce minimum standard or expectations on green credentials of product outputs or business operations.	• Substitution of technology, including requirements to replace manufacturing technology to cleaner alternatives. • Investment in technology to reduce emissions or improve energy efficiency ratings (e.g. EPC) of operations or household.	• Increased volatility and costs, sourcing restrictions for carbon heavy raw materials. • Limited supply and increased demand of energy efficient and low flood risk properties. • Change in consumer behaviours including deliberate move to lower carbon footprint products. • Competitor changes – new entrants focussed on green credentials, entering market without incurring transition costs.	• Change in customer preference to green products. • Increased scrutiny including from regulators, media, on carbon emissions for a business, its supply chain including who provides financing. • Increased stakeholder, shareholder scrutiny if lack of action on reduction in emissions.	• Increased frequency and severity of climate driven events. This could include storm damage, flooding. Damage can be caused to property, local transport and haulage infrastructure.	• Alterations in weather patterns and stability of local ecosystems affecting food production and living environment. • Rising temperatures affecting working conditions, living conditions and local infrastructure. • Rising sea levels affecting local ecosystems, increasing subsidence and flood risks.
Expected time horizon	Short – Medium	Short – Medium	Short – Medium	Short – Medium	Short – Medium – Long	Long
Potential impacts affecting customers and NWG	Demand destruction driven by regulatory change; direct carbon costs increase costs of living and operations, increased costs of compliance, litigation; diminished value of assets.	Increased cost derived from investment in new technology, diminished value of existing technology and infrastructure.	Demand destruction with reduced demand for products and services, diminished competitive position against market, diminished value of assets, increased costs to adapt to market demands.	Demand destruction with reduced demand for products and services, potential disruption costs, diminished value of assets, reduced funding availability, increased cost of debt.	Business disruption, increased recovery and insurance costs, diminished value of assets.	Business disruption, increased recovery and insurance costs, diminished value of assets, employment market shifts.
Primary risks impacted (1)	Credit Risk, Market Risk, Model Risk, Operational Risk, Reputational Risk					
Secondary risks impacted (1)	Capital, Liquidity and Funding, Pension Risk, Earnings Volatility Risk, Conduct Risk, Regulatory Compliance Risk.					

(1) The table above presents an indicative view of potential impacts on NatWest Group risk profile. Targeted interventions in 2020 have sought to assess aspects aligned with Primary risks impacted. During 2021, we will extend this work to secondary risks impacted.

4.2 Managing climate-related risks and integrating these in risk management

Understanding the correlation and potential impact of climate change and its associated risks across different risk types was an important priority for NatWest Group's risk management function as work continued to integrate climate risk into the framework.

Credit Risk

Retail Credit Risk

During 2020, work to integrate climate considerations within retail credit risk management framework focused on two data-driven quantitative projects:

- A transition risk project focused on domestic energy efficiency ratings through the Energy Performance Certificate (EPC) scheme. EPC ratings show the energy efficiency of a property on an A (best) to G (worst) rating scale.
- A physical risk project examining residential flood risk.

An initial property-level analysis of both was completed, which considered the Group's mortgage portfolio in relation to Buy to Let as well as owner occupier mortgages. This analysis will form a foundation for further work in 2021.

NatWest Group's Buy to Let lending criteria was updated in 2019 to preclude new mortgages on properties with an EPC rating below band E. Subsequently, this was also brought into Regulation as of 1 April 2020 by the Domestic Minimum Energy Efficiency Standard (MEES), which requires all domestic private rented properties in England and Wales to have an EPC rating of E or better, unless a valid exemption is in place. NatWest Group's Home Buying and Ownership Team sent a letter to all Buy-to-Let customers at that time to make them aware of the change.

NatWest Group aims to support its residential mortgage customers to become more energy-efficient with an ambition that 50% of the portfolio is at, or above an EPC rating of C or equivalent by 2030. To help encourage the drive towards greater energy efficiency, NatWest Group launched its Green Mortgage product in 2020 aimed at owner occupier customer segments, for properties with an EPC rating of A or B. The Group continues to engage with the UK government, through UK Finance, on the future of EPC regulation.

Outcomes of the EPC and flood data analysis help NatWest Group assess the risk to its residential mortgage portfolio and provide insight to allow the bank to support customers in their climate transition.

Residential property lending criteria incorporate potential physical risks as follows:

- For new lending, flood, subsidence, coastal and environmental risks are assessed as part of the valuation process. Lending will not proceed where the valuer identifies risks at individual property level which might potentially restrict the customer's ability to obtain home insurance.
- The valuation strategy includes controls to exclude the use of automated valuations in vulnerable areas for example properties in areas with a high potential for flood risk.

We are working to enhance data and modelling outputs to capture residential mortgage risk relating to EPC and flood risk. Property valuation documentation has also been updated to include EPC data for owner occupier residential mortgages (previously only applicable to Buy to Let).

Plans are in place in 2021 to continue to refine how EPC and flood risk data will be integrated with the results of the Bank of England's CBES exercise to assess the likely impacts on NatWest Group's mortgage portfolio. In addition to the development of new product propositions designed to support mortgage customers in their transition towards greater energy efficiency, consideration will also be given to evolving regulatory guidance.

Lending exposure to residential mortgages is detailed within section 5.1 of this document.

Wholesale Credit Risk

Progress has also been made in embedding climate-related risk within the Group's approach to wholesale credit risk management. The Wholesale Credit Risk Climate Forum was established in 2020, with a primary role of integrating climate considerations into wholesale credit risk management, including future considerations around risk appetite setting, monitoring and management.

Since April 2020, climate-related risk has been included as a factor in setting sector oversight classifications which drive the frequency and level at which credit risk appetite to that sector is reviewed.

This was followed up with an initial qualitative appraisal of existing sector Transaction Acceptance Standards (TAS). Consideration of both transition and physical climate-related risks has identified carbon-intensive activities, high-energy consumers and those particularly exposed to potential asset value depreciation.

Thirteen sectors were identified as exposed to heightened climate-related risk based on this initial analysis. Refer to section 5.1 for a list of these sectors and related exposures. This list will be reviewed on a continued basis to reflect evolving policy, technological enhancements and behaviour changes. The Wholesale Credit Risk Forum approves the list of sectors identified as exposed to heightened climate-related risk.

Inclusion of climate-related risk in country risk analysis via the Climate Change Vulnerability Index (CCVI):

Historically, the impact of climate change on sovereigns was determined by a one-off assessment of the macroeconomic costs of climate-related extreme weather events. With the integration of climate change into the Bank of England's CBES exercise, a much wider set of risks are now incorporated to determine the acute and long-term effects of both physical and transition risks. Those sovereigns deemed most at risk from climate risk are identified by cross referencing sovereign exposures with those countries most vulnerable to global climate change.

The development of country-specific CCVIs enables NatWest Group to categorise the materiality of climate-related risks in terms of their potential macroeconomic impact as well as their relative weighting in the internal Sovereign Probability of Default model. The index incorporates the direct and material impact on:

(i) economic growth (through productivity losses or sector-specific output losses) and inflation,

(ii) fiscal balances (through expected fiscal costs for extreme weather events),

(iii) external balances (through shocks to the GDP of main trading partners),

(iv) political stability (e.g. increased insecurity/ migrations linked events such as droughts or floods).

The CCVI classifications illustrate significant regional variation. For example, the Gulf States exhibit high expected vulnerability to extreme weather such as droughts as well as to elevated transition risks (high carbon emissions and continued dependence on oil revenues). This analysis, part of the preparatory work for the Bank of England's CBES stress test, will be used to assess climate-related risks across NatWest Group's most material sovereign exposures.

In 2021 the Bank of England's CBES stress test will gauge the resilience of the financial services sector against multiple climate scenarios. It will be the first time that climate change has featured in these tests and considerable preparatory work has been completed in 2020 to ensure the Group is well-positioned to meet these new stress testing requirements.

It's expected that the results will yield further insight into credit risk exposures to climate-related factors and the timescales in which these may arise.

Other key activities for 2021 include:

- Developing a methodology for the measurement and reporting of wholesale credit climate concentration risk.
- Work will progress to determine and embed a qualitative assessment approach to include climate risk in credit applications and in the Policy and Risk Appetite frameworks.
- Flood and EPC data will be used to further assess the likely climate impacts on relevant portfolios.
- Develop an approach to assess climate sensitivities for each of the climate-related risks.

Market Risk

The impact of extreme climate events or a rapid shift in climate change related regulation around the world has the potential to affect market risk across all products.

Increased market risk can also arise as a result of supply chain disruption, changes in demand for real and financial products, and sharp adjustments to market prices for affected sectors or geographies.

The Group aims to mitigate such risks primarily through the development of a range of climate stress scenarios tailored towards those sectors or geographic regions deemed most at risk of climate-related disruption.

A monthly management report detailing geography and sector exposures has been developed. Where concentrations of risk at either sector or geographical level are identified, additional management information will support analysis and assist in risk appetite setting.

Model Risk

Models are used extensively throughout NatWest Group and are being used to help address our response to climate change.

To enable assessment of climate-related risk to the Group as well as the management of targets to support NatWest's climate ambitions, various types of models are being developed. This includes:

- Scenario generation models used to predict changes in economic factors due to climate change.
- Asset specific models used to assess changes to asset value and income due to climate change.
- Models used to calculate carbon emissions and track progress against emissions targets over time.

All climate-related models must meet the minimum model risk policy requirements, including an assessment of materiality and independent validation across various model dimensions.

A review of a sample set of asset specific models, conducted in 2020, considered both physical and transition risks. The main objective was to understand the risks associated with various internal and external data sources, model methodology and quality of documentation.

This initial model risk assessment for climate impacting models will help the bank better understand the risks associated with the use of models for this purpose. The analysis will be used to improve the quality of information, ahead of a further planned review prior to the start of the CBES 2021 stress test.

Other work completed in 2020 included a review of the tool used to calculate current carbon emissions associated with the Group's residential mortgage book. The review found the overall approach to be intuitive, although several assumptions have to be made where data is unavailable. In 2021, the Group expects to test the model sensitivity under various assumptions to understand how business strategy can be aligned to achieve Paris alignment.

In addition, the Group expects to leverage existing stress testing models, with their scope extended to cover climate scenarios. These models will be tested in H1 2021, with suitability for use in climate scenarios being assessed. Given the nature of these models, validation is expected to be outcome-based and will focus on benchmarking.

Operational Risk

Climate change is viewed as a cause of operational risks like disruption to business services, damage to physical assets, supply chain disruption and, health and safety.

In 2020, elements of the risk management framework relating to operational risk were reviewed, in conjunction with an independent assessor and found to be adequate for the identification and assessment of climate-related risks. Consideration of climate risks was introduced in internal risk and control assessments (RCAs) as well as scenario analysis.

Targeted assessments of climate risks were carried out in 2020. RCAs considered additional risks likely to occur over the next 12 months, specifically in relation to the Group's property services and supply chains.

During 2020, a scenario analysis pilot was performed, focused on the Group's operations in India, under the sponsorship of the Country Head and approved by the India Risk Committee. India faces heightened physical risks through exposure to tropical cyclones, flooding and droughts. The scenario analysis completed considered two extreme but plausible events, a 1-in-25 year and a 1-in-100 year climate-driven event, to assess the potential effects of these events including disruption to business services, damage to physical assets and health and safety. The scenarios were developed inhouse incorporating information gathered from both national and state-level adaptation plans, externally sourced data and applying a worst-case scenario of increase in temperature by 4°C by the end of the century.

Scenarios considered:

1-in-25 year climate-driven event

Delhi: Lethal heat waves coupled with dust storms make it hazardous to go out and government issues advice to stay at home. High wind speed and dust levels result in damage to power infrastructure and cause power disruption in parts of the city resulting in a power black-out for 24 hours. Power interruptions continue in some parts of the city for three days. During the same three-day period, extreme heat levels result in health issues affecting colleague availability. This occurs in Delhi and the National Capital Region (NCR) during the hottest summer month (May). The power outage in some areas in Delhi and NCR along with health issues result in 20% of colleagues being unavailable for three business days.

Chennai: Floods due to heavy monsoon rains affect coastal as well as low lying areas. This is accompanied by a high intensity storm (category 3), which results in urban flooding. Colleagues in some areas of Chennai are unable to leave their homes. The scenario also simulated intermittent power disruption in some parts of the city along with health issues from water borne diseases affecting colleague availability. This disruption across Chennai occurs during the north-east monsoon season (November). Restricted movement of people due to persistent monsoon rains, combined with the aftermath of the category 3 storm, intermittent power outages in some parts of the city as well as health issues, result in 20% of colleagues in Chennai being unavailable for two weeks.

1-in-100 year climate-driven event

Delhi: Lethal heat waves coupled with severe dust storms make it hazardous to go out and government issues advice to stay at home. Very high wind speeds result in severe damage to power and communication infrastructure for a week with intermittent restoration for the following week. During this two-week period, extreme heat levels result in health issues affecting colleague availability. This occurs in Delhi and the NCR during the hottest summer month (May). The power outage in several locations in Delhi and NCR, along with health issues, result in 40% of colleagues being unavailable for a period of one week (five business days). With intermittent power restoration in the subsequent week, the situation improves reducing colleagues' unavailability to 20% of overall colleagues in Delhi and NCR.

Chennai: Extreme rainfall, coastal floods and a severe intensity storm (category 5) result in government advice to stay at home. The disaster also results in infrastructure outage (power and communications), urban flooding and health issues from water borne disease affecting colleague availability. This occurs during the north-east monsoon season (November). The severe category 5 storm damages power and communication infrastructure in several parts of the city for two weeks. Partial restoration begins during the third week, with full restoration taking another two weeks. Power and communication infrastructure outages, flooding and water borne diseases result in 40% of colleagues in Chennai being unavailable for two weeks, improving to 20% for the subsequent two weeks.

The above scenarios are based on events that have occurred in the past and are further stressed for plausible future occurrences. Limited data is publicly available on climate projections and their consequent impact on productivity, health and resource availability. As a result, NatWest Group made some assumptions regarding the availability of colleagues due to climate events. There is no available research on similar climate-related events such as floods happening concurrently across multiple cities where NatWest Group has a presence in India.

Insights:

- The customer impact from a 1-in-25 years scenario was categorised as 'Important', with a direct cost implication estimated at approximately £0.9 million.
- The customer and reputation impact of a 1-in-100 years scenario was categorised as 'Significant', with direct costs estimated at approximately £4.8 million.

The most material risk from both scenarios was identified as disruption to business services. The findings of the exercise demonstrated adequate operational load balancing, provided through alternative business locations. In addition, existing controls were found to be effective, which supported recovery from the scenarios explored.

The outcomes of the India-focused 2020 scenario analysis will be used to inform a Group level exercise planned for 2021, when a bank-wide operational risk scenario exercise will be undertaken to assess the potential impacts of climate driven events including disruption to business services.

Reputational Risk

The risks relating to climate change pose an extraordinary and complex challenge. Assessing the future risk profile is dependent on a significant number of variables, some of which remain uncertain or unknown at this point. However, actions by colleagues, customers or suppliers that do not meet the Group's standards in relation to the climate agenda could result in significant reputational damage.

To help NatWest Group assess and manage these risks, it operates an Environmental, Social and Ethical Risk Management Framework.

Since 2011, the ESE Framework has developed nine ESE Risk Acceptance Criteria on sectors which present heightened ESE risk and require enhanced due diligence. A further review of these sectors was conducted in 2020, which led to four sectors being identified as having material climate risk considerations: mining and metals; oil and gas; power generation and, forestry, fisheries and agribusiness.

The mining and metals ESE Risk Acceptance Criteria restricts lending to carbon-intensive industries or activities, such as certain kinds of mining, that may cause irrevocable harm to the environment. All policies are reviewed every 24 months (or more frequently if that is deemed appropriate due to an emerging issue) to ensure they are effective and appropriate.

Accordingly, revised Risk Acceptance Criteria were developed to help accelerate the transition towards more sustainable activity and reduce reliance on carbon-intensive energy sources. NatWest Group is committed to progressively withdrawing support in certain sectors if businesses do not have credible transition plans, in accordance with the 2015 Paris Agreement, in place by the end of 2021. The methodology for the assessment of transition plans was developed in collaboration with an external expert. In 2020, we announced that we would stop lending and underwriting to companies who generate more than 15% (previously 40%) of activities relating to coal, unless they have a credible transition plan, in line with the 2015 Paris Agreement, in place by the end of 2021.

Other enhancements to the oil and gas ESE Risk Acceptance Criteria delivered in 2020 included prohibitions on project financing for new exploration in the oil and gas sector, including fracking.

ESE assessments of customers, projects and transactions are performed by a specialist team and can include reviews of customers outside of one of the nine identified ESE sectors where there are ESE issues identified. NatWest Group also expects its customers to adhere to local and international environmental, social and human rights standards. In 2020 NatWest Group undertook 140 Customer ESE assessments and 82 of these fell within one of the four climate-related ESE sectors.

Equator Principles and other external considerations

The Group adopted the Equator Principles in 2003. These are a voluntary set of standards adopted by financial institutions for determining, assessing and managing environmental and social risks in project-related transactions. All transactions that fall within the scope of the Equator principles undergo environmental and social risk screening. Typically for project finance deals, a suitably qualified technical advisor is engaged, who provides an opinion on potential environmental and social impacts of the project and compliance with the principles. Depending on the risk category, the prospective financing may be subject to a further and separate review by a Reputational Risk Committee. The requirements of the principles are embedded in the ESE risk management policy.

In 2021, we will embed ESE considerations into the credit risk TAS process. In addition, there is a significant focus on how lending criteria and controls can be further strengthened to ensure corporate lending is not used for prohibited activities or to support business activity deemed harmful to the environment.

EQUATOR PRINCIPLES

5. Metrics and Targets

This section includes key metrics used by NatWest Group to assess climate-related risks and opportunities.

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5.2 Retail Banking residential mortgages – energy efficiency and flood risk assessment 42
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5.1 Heightened climate-related risk sectors

The table below summarises exposures to sectors identified as exposed to heightened climate-related risk impacts (as outlined in section 4.2). Total sector exposure comprises loans (gross loans and advances to customers and banks accounted at amortised cost and fair value through other comprehensive income) and related off balance sheet exposures. Amounts reported include all lending to customers including sustainable lending, as well as to environmentally responsible customers.

	2020				2019			
Heightened climate-related risk sectors	**Loans**	**Off-Balance sheet**	**Total Sector Exposure**	**Total Sector Exposure as % of Total NatWest Group**	**Loans**	**Off-Balance sheet**	**Total Sector Exposure**	**Total Sector Exposure as % of Total NatWest Group [2]**
£m	**£m**	**£m**	**£m**	**%**	**£m**	**£m**	**£m**	**%**
Residential Mortgages [1]	190,516	14,557	205,073	40.5%	174,003	14,348	188,351	40.5%
Commercial Real Estate	23,414	7,831	31,245	6.2%	23,236	7,525	30,761	6.6%
Housing Associations	7,927	5,749	13,676	2.7%	8,139	4,410	12,549	2.7%
Automotive	6,303	4,307	10,610	2.1%	6,225	3,913	10,138	2.2%
Power Utilities	3,469	6,355	9,824	1.9%	3,259	6,012	9,271	2.0%
Land Transport and Logistics	4,802	3,979	8,781	1.7%	3,846	3,550	7,396	1.6%
Agriculture	5,337	1,252	6,589	1.3%	4,931	1,110	6,041	1.3%
Construction	5,024	2,089	7,113	1.4%	3,544	1,905	5,449	1.2%
Oil and Gas	1,561	2,571	4,132	0.8%	2,149	2,758	4,907	1.1%
Airlines and Aerospace	2,007	2,103	4,110	0.8%	1,713	1,987	3,700	0.8%
Building Materials	1,710	1,728	3,438	0.7%	1,293	1,543	2,836	0.6%
Shipping	1,042	211	1,253	0.2%	1,219	366	1,585	0.3%
Chemicals	539	825	1,364	0.3%	504	897	1,401	0.3%
Mining and Metals	450	755	1,205	0.2%	555	701	1,256	0.3%
Total Heightened climate-related sectors	**254,101**	**54,312**	**308,413**	**60.9%**	**234,616**	**51,025**	**285,641**	**61.5%**
Total NatWest Group [2]	**372,399**	**133,635**	**506,034**	**100.0%**	**336,833**	**127,903**	**464,736**	**100.0%**

(1) Includes a portion of secured lending in Private Banking, in line with Expected Credit Loss (ECL) calculation methodology.
(2) 2019 data has been restated for the accounting policy change for balances held with central banks. Refer to Accounting policy changes effective 1 January 2020 within the NatWest Group 2020 Annual Report and Accounts 2020 for further details.

Total exposure to heightened climate-related risk sectors has increased by £22.8 billion during 2020, primarily relating t o the following:

- The increase in residential mortgages of £16.7 billion reflected strong customer demand as well as the £3.0 billion acquisition of an owner-occupied mortgage portfolio from Metro Bank.

Exposure also increased in several wholesale sectors, primarily related to:

- Construction and land transport and logistics sectors increased by £1.7 billion and £1.4 billion respectively, reflecting the increased lending activity under the COVID-19 government lending schemes.
- Power utilities increased by £0.6 billion, primarily reflecting new lending for renewable energy and infrastructure projects as detailed in section 5.3.
- Housing associations increased by £1.1. billion primarily reflecting support for development of affordable homes.
- Exposure to the oil and gas sector has decreased £0.8bilion, in line with tighter lending criteria and increased focus on credible transition plans now in place for this sector. At December 2020, exposure to oil and gas majors amounted £1.3 billion (December 2019: £1.4 billion).

As stated in our climate ambition, we plan to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal; unless they have a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021.

Exposure of £0.6 billion related to customers engaged in coal (thermal and lignite) related mining, power generation and trading activities is included in the table. These customers have been identified based on having 15% or more EBITDA related to thermal and lignite coal activities, as reported in their most recent audited accounts.

During 2020, we have performed initial qualitative assessment for these sectors to assess physical and transition risks deemed to have the most impact. In 2021, an approach to assess climate sensitivities against each of the climate-related risks will be developed to further support our understanding of impacts related to these sectors.

5.2 Retail Banking residential mortgages – energy efficiency and flood risk assessment

Retail Banking mortgages represent 85.8% of NatWest Group's residential mortgage portfolio. Residential mortgages are exposed to both transition and physical risks. Section 5.2.1 and 5.2.2 present the energy efficiency and flood risk profile of Retail Banking residential mortgages.

5.2.1 Energy efficiency – EPC ratings for Retail Banking residential mortgages in England and Wales

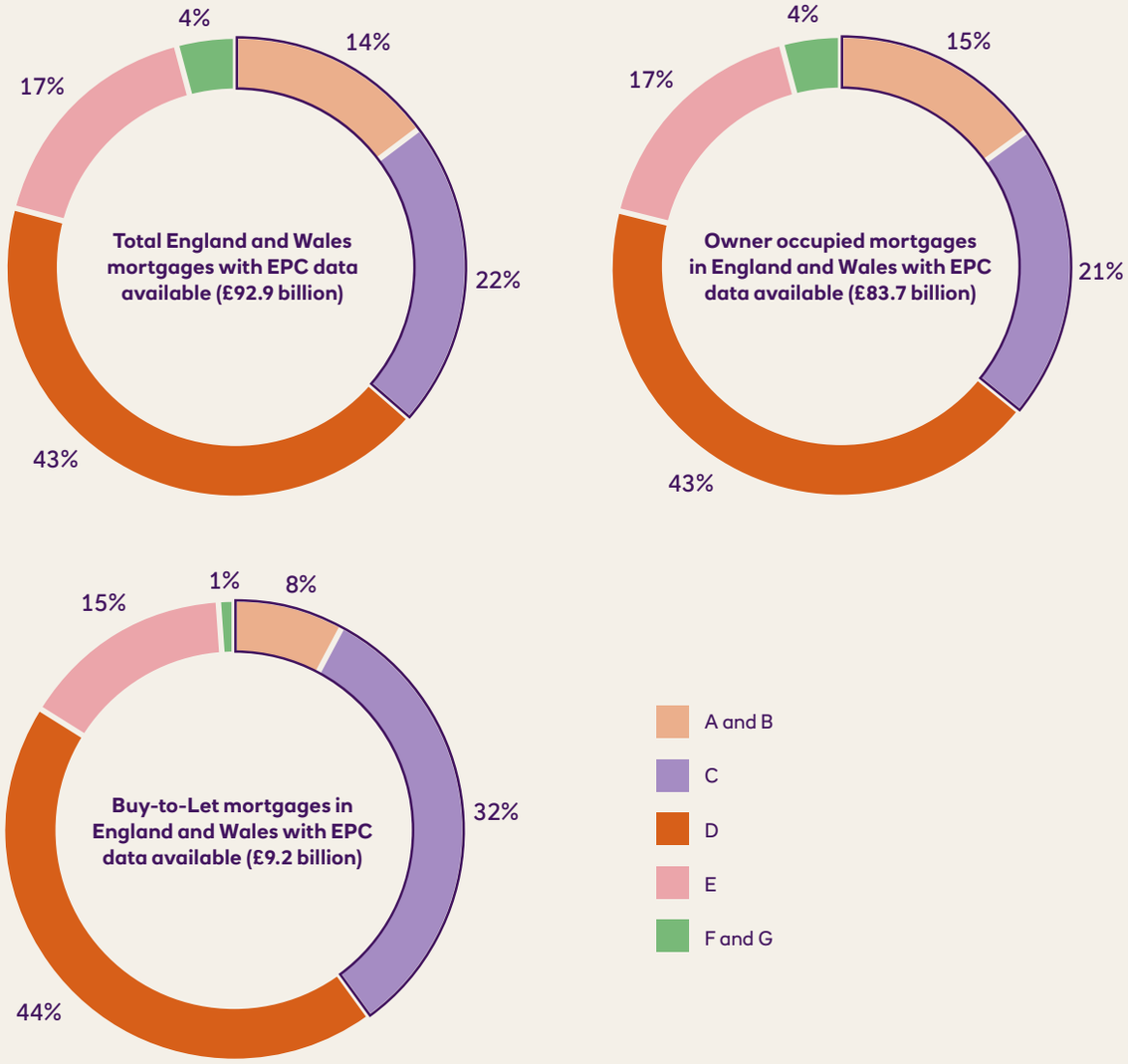
Supporting our UK and RoI mortgage customers to increase their residential energy efficiency and incentivising purchase of the most energy efficient homes is a key part of our climate ambition. In addition, we have an ambition that 50% of our mortgage book has an EPC or equivalent rating of C or above by 2030. EPC ratings provide an indication of energy efficiency for a property.

The charts on this page present the percentage of Retail Banking mortgages in England and Wales by EPC rating band. This analysis covers £141.3 billion out of the total residential mortgage portfolio of £190.2 billion for NatWest Group (74.3%) and £163.1 billion for Retail Banking (86.6%).

Data source and limitations: We have sourced EPC data from the Energy Performance of Buildings Open Data 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. NatWest Group continues to engage with the Government and Regulators to enhance EPC rating data availability, and disclosure, including through the 'Improving home energy performance through lenders' consultation issued by Department for Business, Energy and Industrial Strategy.

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

Within the Retail Banking mortgage portfolio in England and Wales, EPC data is available for mortgages amounting to £92.9 billion (65.7% of the mortgages in England and Wales). Of these, £83.7 billion are owner occupied and £9.2 billion are Buy-to-Let. The charts opposite present EPC rating breakdown for each of these portfolios:



5.2.2 Flood Risk for residential mortgages in Retail Banking portfolio

The map represents proportion of properties at high and very high risk of flood, as a percentage of Retail Banking mortgage lending by value in that region in the UK. For 2020, flood data was only available for Great Britain; we expect data for Northern Ireland to be available in 2021.

On a total volume basis, Retail Banking mortgages at high risk of flooding are 3% of the portfolio and those at very high risk are 0.1% of the portfolio. This is lower than overall Great Britain volume based analysis with high of 3.4% and very high of 0.1%.

Data for flood risk analysis: We are using Airbus' Geospatial Financial Hub (GFH) to analyse the potential financial impact of climate change on individual properties in the Retail Banking mortgage portfolio. The GFH combines detailed data from multiple sources to enable assessment of climate change impacts at individual property level. Risks analysed include surface flooding, rivers, ground water as well as coastal flooding and clay related shrink-swell. Airbus gather multiple geospatial datasets, derived from industry specialists including Ordnance Survey, JBA Risk Management and Property Risk Inspection. It also calculates the physical risks to properties now and as global temperatures rise using climate data from the UK Climate Projections 2018 (UKCP18).

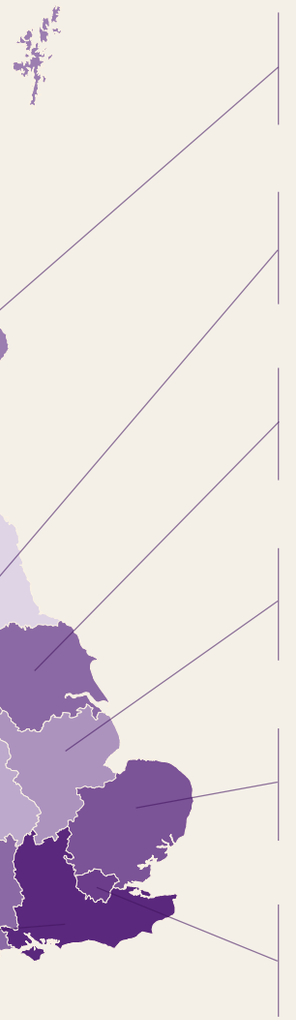
Flood scores: JBA model flood hazard by looking at the four different types of flooding (surface water, ground water, coastal and river) and calculating the frequency and depth of flooding nationally to derive flood maps. Flood defences are considered where available. Flood scores, based on JBA's flood matrix, are allocated per property based on the potential flood damage to property dependent on the type, frequency and depth of flooding modelled; for example, coastal flooding will involve salt water which can cause more property damage than river flood water and therefore has a higher score than the equivalent river flood score. The scoring ranges from 0 to 53, with 0 being lowest and 53 being the highest risk. JBA's flood scores in the UK are widely used by insurers, lenders, property search/conveyancers and valuation surveyors providing a consistent view across the whole homebuying and property management process.

We have included properties with a score of 11 and above within the high risk category and those with a score of 31 and above within the very high risk category. We understand this basis to be consistent with insurers' assessment and grading of high flood risk.

The flood analysis presented is based on present day risk levels. In the CBES 2021 analysis, we will leverage this data to project the evolution of flood risk in line with the three scenarios provided by the Bank of England.

Proportion of properties at high and very high risk of flooding, by region

The shades in the image from light to dark represent the level of flood risk in the region based on value of lending and proportion of properties at high and very high risk of flood; with lightest being the lowest and darkest being the highest.



North West
% of total mortgage lending : **10.0%**
% of regional lending at high risk : **2.4%**
% of regional lending at very high risk : **0.1%**

West Midlands
% of total mortgage lending : **7.4%**
% of regional lending at high risk : **1.7%**
% of regional lending at very high risk : **0.0%**

Wales
% of total mortgage lending : **3.0%**
% of regional lending at high risk : **4.0%**
% of regional lending at very high risk : **0.2%**

South West
% of total mortgage lending : **9.1%**
% of regional lending at high risk : **2.7%**
% of regional lending at very high risk : **0.2%**

South East
% of total mortgage lending : **18.9%**
% of regional lending at high risk : **4.1%**
% of regional lending at very high risk : **0.1%**

Scotland
% of total mortgage lending : **7.2%**
% of regional lending at high risk : **3.1%**
% of regional lending at very high risk : **0.3%**

North East
% of total mortgage lending : **2.3%**
% of regional lending at high risk : **1.1%**
% of regional lending at very high risk : **0.1%**

Yorkshire and The Humber
% of total mortgage lending : **5.7%**
% of regional lending at high risk : **4.4%**
% of regional lending at very high risk : **0.2%**

East Midlands
% of total mortgage lending : **6.7%**
% of regional lending at high risk : **2.2%**
% of regional lending at very high risk : **0.1%**

East of England
% of total mortgage lending : **11.7%**
% of regional lending at high risk : **2.4%**
% of regional lending at very high risk : **0.1%**

Greater London
% of total mortgage lending : **18.1%**
% of regional lending at high risk : **2.4%**
% of regional lending at very high risk : **0.0%**

5.3 Climate and Sustainable Funding and Financing

In February 2020, NatWest Group announced that it would support an additional £20 billion funding and financing (including underwriting but excluding mergers and acquisitions advisory activities) for climate and sustainable finance between 2020-2022. As a result of the progress made during 2020, the timeline for this target has been brought forward to 2021. We expect to exceed our £20 billion target during 2021. NatWest Group used its 2020 Climate and Sustainable Finance Inclusion Criteria (CSFI criteria) published in 2020 to determine the assets, activities and companies that are eligible to be counted towards this target. The CSFI criteria are currently focused on supporting a transition towards a low carbon and climate resilient economy.

The assets and activities which are in scope of the CSFI criteria are in line with the eligibility criteria of one or more of the ICMA Green Bond Principles (2018), Loan Markets Association ("LMA") Green Loan Principles, and relevant transactions (that include a specific carbon or climate-related metric) under the LMA's Sustainability Linked Loan Principles.

£12 billion climate and sustainable funding and financing during 2020 comprised £7.2 billion in NWM Group, £3.9 billion in Commercial Banking, £0.8 billion in RBS International and £0.1 billion in other segments.

Notable external benchmarking includes:

- Based on the Inframation Deals League Table, NatWest Group has been externally recognised as a leading lender to the UK renewables sector by number of transactions over the past 10 years. In 2020, NatWest Group was ranked 1st in UK project finance renewables lending.
- In 2020, NWM Plc, acting as lead manager, was ranked 1st in Green, Social and Sustainability (GSS) bonds issued by UK Corporates (Source: Dealogic Full Year 2020), and had an estimated 16.8% share of the GBP-denominated GSS Bond market as measured by notional amount (Source: Bloomberg Finance L.P. 31 December 2020).

The table below shows our progress during 2020, compared with activity during 2018 and 2019 against previous target of £10 billion climate and sustainable funding and financing related to these years. This demonstrates the increased support provided to customers over the years to help transition to a low carbon economy.

	2020*		2018-2019	
Climate and Sustainable Funding and Financing [1]	Number of deals	£m	Number of deals	£m
Green Wholesale lending [2]: specific purpose lending to customers within scope of the CSFI criteria	101	2,528	269	3,366
Green bond public issuances and green private placements [3]**:** underwriting of specific use of proceeds debt capital market issuances for projects and clients that meet the CSFI criteria	36	5,030	27	3,721
Sustainability Linked Loans: made to customers in line with LMA sustainability linked loan principles where loan targets include green performance indicators, aligned to the CSFI criteria	28	2,633	35	2,850
Other wholesale general purpose lending or wider financing within the CSFI criteria [4]	21	1,823		
Total Climate and Sustainable Funding and Financing	**186**	**12,014**	**331**	**9,937**

(1) During 2020, the CSFI criteria excluded personal lending and NatWest Group own bond issuances. As a result, amounts related to these aren't included in the table above. In early 2021, the CSFI criteria has been amended to provide additional clarity on existing criteria, and also to include lending to personal customers for properties with EPC A and B ratings. The inclusion of personal customers in the CSFI criteria going forward does not impact the scope £20 billion climate and sustainable funding and financing commitment, as set in 2020.

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

(3) Green bond public issuance and green bond private placements represent the NWM Group share of the notional (total underwriting amount lead managed by NWM Group), based on the number of underwriters within a specific deal. Green bonds and private placements totalling a notional amount of £22.7 billion, account for approximately 4% of the total lead managed transactions by NWM Group during the year.

(4) In addition to transactions that directly meet CSFI criteria based on use of proceeds for green purposes, the CSFI criteria also includes certain general purpose loans and wider financing to a customer who can evidence (to NatWest Group's satisfaction through review of the customers' profit and loss statement) 50% or more revenues from the categories and sectors outlined in the criteria. In 2020, £1,823 million included above comprises loans of £428 million and bonds and private placements of £1,395 million.

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

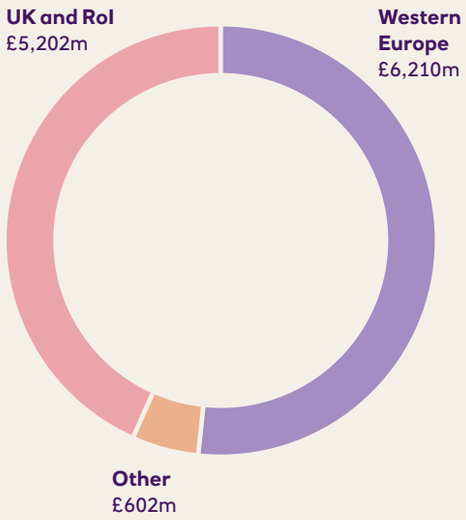
"NWM Group acted as bookrunner on the Kingdom of Sweden's inaugural sovereign Green Bond, raising SEK20 billion of proceeds linked to central government expenditures to meet Sweden's environmental and climate goals, which include protection of valuable natural environments, climate investments and railway maintenance. The framework received a "dark green" rating by Cicero – the highest grade.

"NatWest Group provided financing and risk solutions to Dogger Bank Wind Farm, which will be the world's largest offshore wind farm once constructed.

"NWB Plc and UBI DAC supported NTR to construct and operate a number of onshore wind projects. NTR's 220MW portfolio of 12 onshore wind farms are located across the UK and Ireland, it's estimated that the portfolio offsets circa 125,000 tonnes of CO_2 emissions per annum and powers over 130,000 homes with clean energy.

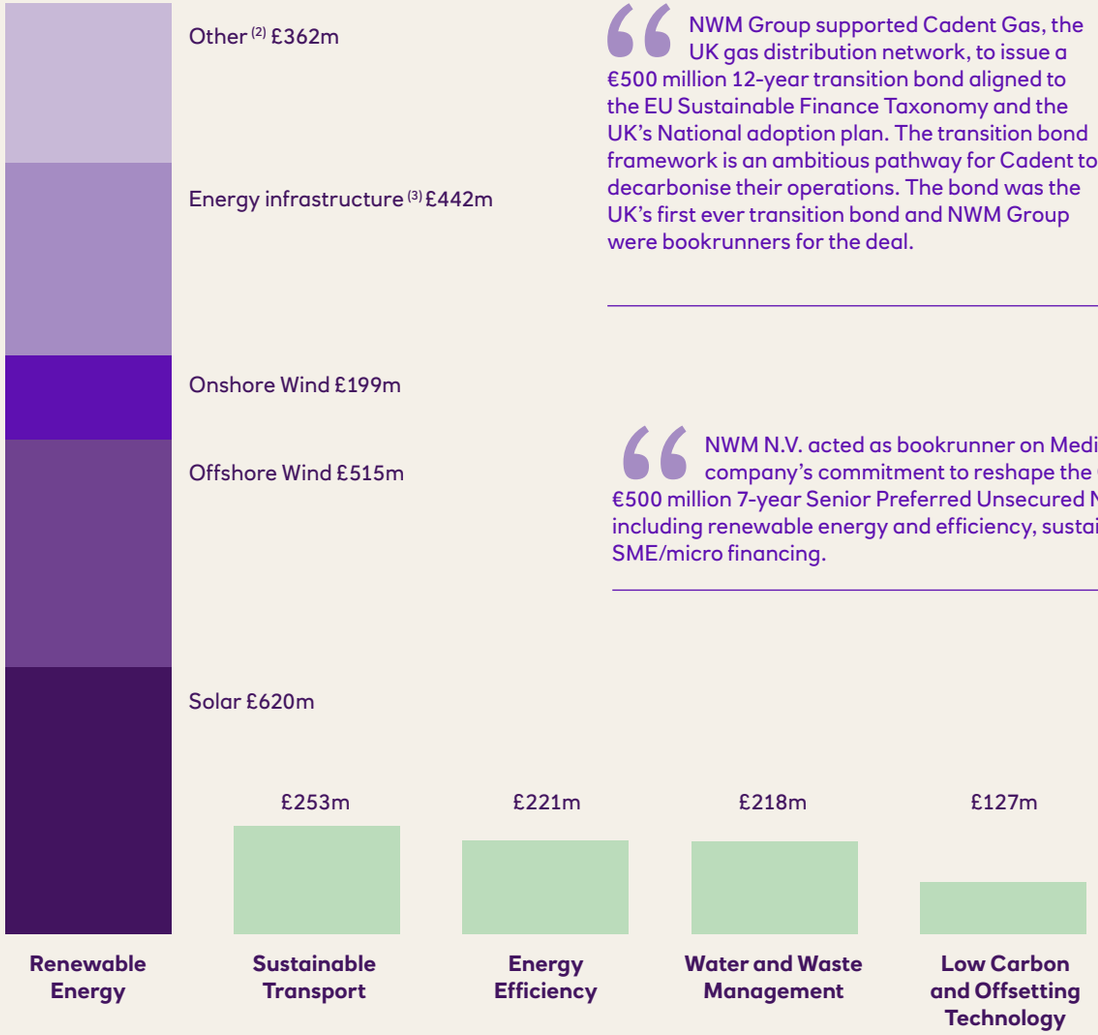
"NWM Group supported Northern Powergrid's plans to decarbonise its electricity network by acting as sole structuring bank on their inaugural Green Finance Framework and joint bookrunner for their £300 million 42 year debut green bond under the framework. This marks the first such framework for a UK electricity distribution network operator.

Geographical split of climate and sustainable funding and financing in 2020



"NWB Plc supported a landmark Electric Vehicle and Charging Infrastructure transaction for Zenobe Energy, one of the UK's largest independent owners and operators of battery storage. Our support means that Zenob can expand their operations and finance enough batteries to power about 100 electric buses owned by private transport firms and councils around the UK. This deal marks a major step forward in helping us meet our sustainability objectives for the decarbonisation of commercial transport.

Wholesale loans by CSFI criteria category [1]



"NWM Group supported Cadent Gas, the UK gas distribution network, to issue a €500 million 12-year transition bond aligned to the EU Sustainable Finance Taxonomy and the UK's National adoption plan. The transition bond framework is an ambitious pathway for Cadent to decarbonise their operations. The bond was the UK's first ever transition bond and NWM Group were bookrunners for the deal.

"RBSI Limited supported The Renewables Infrastructure Group Limited ("TRIG") with a 3 year sustainability linked revolving credit facility. The facility supports TRIG's investment into new renewable energy projects in the UK and Europe, investing in onshore/offshore wind farms and solar farms. The renewed facility comprises ESG related KPIs which will incur a premium or discount to the margin and commitment fee based on the performance of the KPIs.

"NWM N.V. acted as bookrunner on Mediobanca's inaugural Green Bond, confirming the company's commitment to reshape the Group in line with its ESG strategy. The proceeds of the €500 million 7-year Senior Preferred Unsecured Notes will be used to finance or refinance eligible projects including renewable energy and efficiency, sustainable mobility, green buildings, circular economy and SME/micro financing.

"NWB Plc supported Bromford with its first sustainability-linked loan, providing a £50 million 10 year revolving credit facility (RCF). This was the first SLL provided by NatWest to the social housing sector. The RCF is linked to metrics concerning the energy efficiency of Bromford's existing portfolio of 43,000 homes.

Notes:
(1) Sustainability Linked Loans are excluded from the chart above.
(2) Renewable Energy – Other primarily relates to biomass energy projects and lending to funds who invest in multiple types of renewable energy.
(3) Energy infrastructure includes lending for companies and assets relating to electricity transmission and distribution.

5.4 NatWest Group Green Bond Issuance

NatWest Group has established a Green, Social and Sustainability Bond Framework (the "GSS Framework") in June 2019 with the aim to attract dedicated funding for loans and investment that bring a positive environmental and social impact. The GSS Framework(1) was updated in October 2020 to include new Use of Proceeds categories including, amongst others, Green Buildings and Pollution Prevention and Control. Sustainalytics has provided an updated independent Second Party Opinion(1), where they note that the GSS Framework is "both credible and impactful" and that "NatWest Group plc is well-positioned to issue green, social and sustainability bonds and that that Green, Social and Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020) and Sustainability Bond Guidelines (2020)".

During the first half of 2020, NatWest Group became the first UK bank to issue a USD Green Bond into the US onshore market. The proceeds of this $600 million USD Green Bond are allocated to renewable energy projects across the UK, according to eligibility criteria defined in the GSS Framework. The initial allocation included Wind, Solar and Hydropower projects, with the projects in the portfolio at the time of issuance producing an estimated total renewable energy capacity of 3,155 Megawatts(2).

Our initial 2020 target for Green, Social and Sustainable Bond issuance was £1 billion from our plan, prepared before the COVID-19 pandemic, of £2-4 billion of senior MREL compliant debt. Notwithstanding the COVID-19 pandemic induced market volatility and revised requirements, our inaugural green bond contributed c.£440 million of the c.£1.4 billion senior MREL compliant debt we issued in 2020.

(1) The GSS Framework and Second Party Opinion can be found on natwestgroup.com

(2) The total energy capacity represents that of the entire projects which may be funded by syndicated debt facilities. Data reported by customer and not verified by NWG.

5.5 NatWest Group Own Operational Footprint

We have met our ambition to be Net Zero Carbon [1] across our own operations in 2020 [2]. We achieved this through a combination of emissions reductions, in line with our 1.5-degree science-based target commitment, alongside offsetting residual Scope 1, 2 and 3 [3] emissions through the purchase of internationally recognised TIST Carbon Credits [4].

NatWest Group understands that carbon offsetting is only an interim solution; however, we believe it's the best way to take accountability for the carbon we emit until it can be eliminated at source.

Climate Positive by 2025

Our priority now is to focus on becoming Climate Positive across our own operations by 2025, so that we offset more carbon than we emit. Last year we announced this would be achieved by maintaining our 2020 level of carbon offsetting and simultaneously reducing emissions from our own operations a further 25% by 2025 (2019 baseline).

Due to the exceptional circumstances linked to the COVID-19 pandemic, we have already reduced emissions by 33% (against 2019 baseline), driven by reduced energy consumption and business travel. Additionally, with more than 50,000 colleagues working from home due to the COVID-19 pandemic, some emissions have transferred to colleague homes.

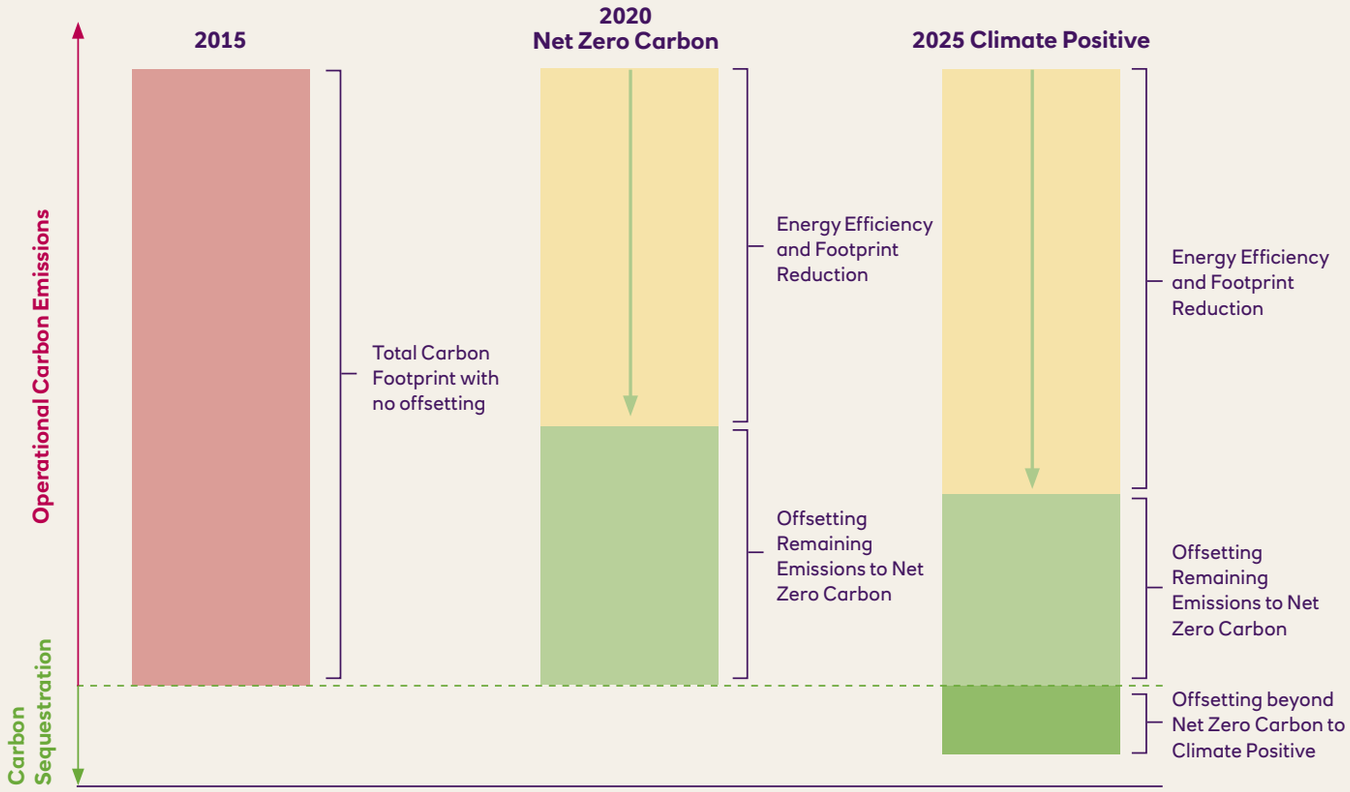
In recognition of this exceptional year, we have:

1) Calculated and offset all colleague home working and commuting emissions (37,596 tCO_2e). These additional emissions offset in 2020 go beyond our current reporting boundary of emissions in our direct operational control. To calculate these emissions, we collaborated with EcoAct, Lloyds Banking Group and other organisations to launch the first ever open source home working emissions methodology.
2) Set the minimum level of offsets that we will maintain through to 2025 to 120,000 tCO_2e, aligned to our 2019 market based emissions; instead of 2020 emissions (93,144 tCO_2e), which are lower than 2019.
3) We will continue to pursue a 25% carbon reduction by 2025 (2019 baseline) due to an expected rebound in the future.

At NatWest Group, we aim to use resources sustainably, following the key principles of an environmental management system (EMS) by identifying, managing and monitoring environmental areas and continually improving our approaches.

We are also placing more focus on our value chain by maintaining Zero Waste to Landfill in the UK and RoI, reducing waste to 3kg per full-time employee (FTE) per week by 2025 and seeking to eliminate unnecessary single-use plastics.

Our climate targets have been set in alignment with UK and devolved government strategies, the United Nations Sustainable Development Goals (UN SDGs) and a circular economy approach to eliminate waste and minimise consumption of finite resources.

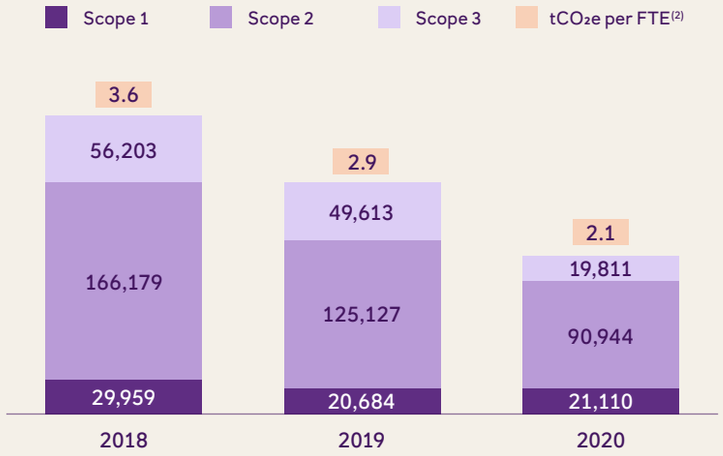


Notes:

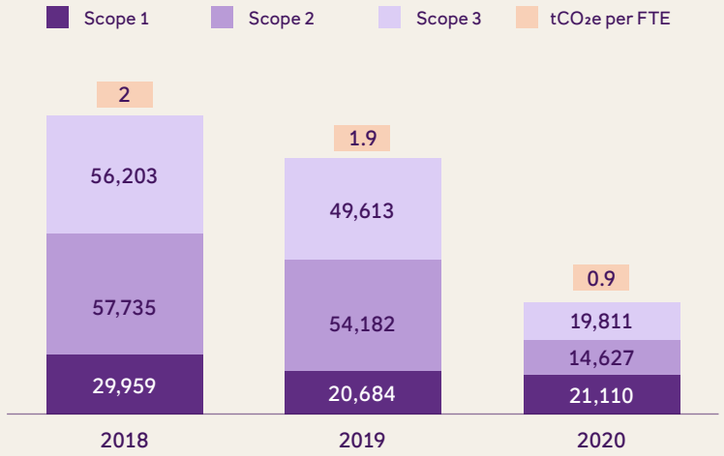
1) NatWest Group define Net Zero Carbon as "a state where no incremental greenhouse gases are added to the atmosphere, with remaining emissions output being balanced by the removal of carbon from the atmosphere"
2) Our Own Operational Footprint reporting year runs from October 2019 to September 2020.
3) Scope 3 emissions from business travel, paper, waste and water.
4) TIST projects remove carbon from the atmosphere through tree planting. All TIST carbon credits are dual-validated and verified under the Verified Carbon Standard (VCS) and Climate, Community and Biodiversity Standards (CCB).

The charts below present the 2018 to 2020 trend related to NatWest Group own operational GHG emissions; energy, paper, water consumption, as well as waste generated.

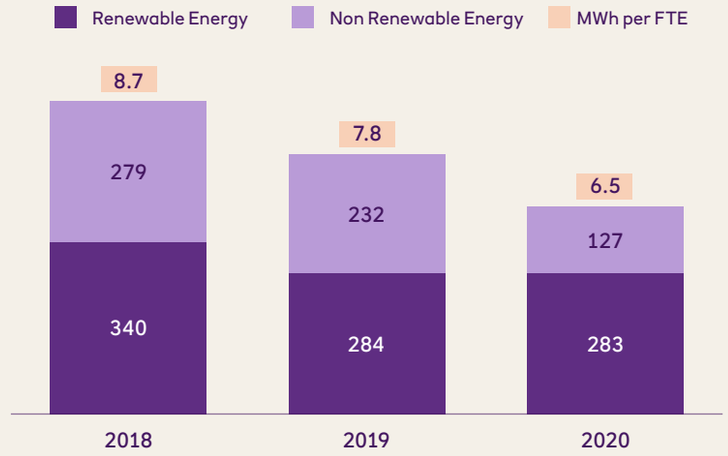
Location Based GHG Emissions (tCO_2e)[1][2]



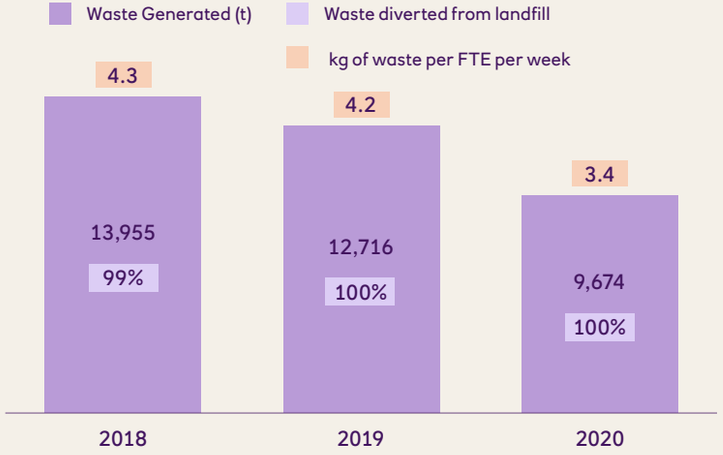
Market Based GHG Emissions (tCO_2e)[1][2]



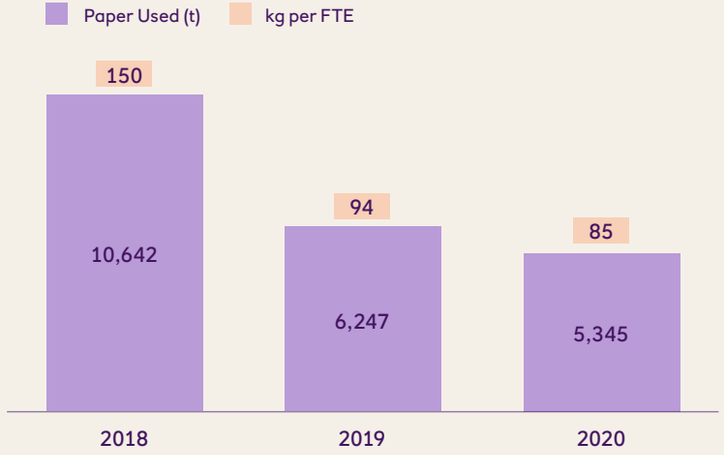
Energy Consumption (GWh)[2]



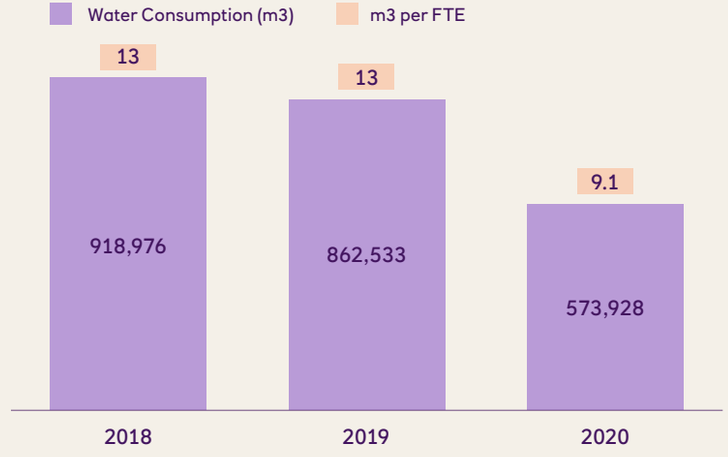
Waste Generated (t)[2]



Paper Used (t)[2]



Water Consumption (m3)[2]



(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 energy. As renewable sources have nearly zero emissions associated with energy generation, market based emissions are lower than location based emissions. Refer to Streamlined Energy Carbon Reporting for further details on basis of GHG emissions calculation.

(2) Units of measure: tCO_2e 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.

Sustainable use of resources

Carbon: In 2020, we reduced our total combined Scope 1, 2 and 3 (business travel, paper, waste and water) emissions by 33% against a 2019 baseline.

We recognise that the COVID-19 pandemic has had an impact on our footprint; energy and business travel emissions, which are major contributors to our carbon footprint have fallen, by 26% and 67% respectively.

Waste: Our 2025 target is to maintain our commitment to sending Zero Waste to Landfill in the UK and RoI, by working with suppliers to follow a waste hierarchy so that waste is reused, recycled or sent to a waste to energy facility.

During 2020, we were audited by the Carbon Trust and maintained our Zero Waste to Landfill accreditation. Our waste per FTE reduced from 4.2 kg/week to 3.4 kg/week, which was larger than anticipated due to some of our buildings closing as part of the COVID-19 lockdown restrictions.

We work with our supplier Go Green Managed Services to refurbish and refresh our existing furniture for reuse both within our building portfolio, and to supply furniture to our colleagues working from home. Surplus furniture is either donated to a network of our chosen charities or sold on to other businesses and the money raised is used for charitable causes. In 2020 we reused 15,573 assets within our portfolio, sold 4,247 assets and donated 7,771 assets to charities.

Paper Reduction: Our 2025 target is to reduce paper consumption by 70% from a 2015 baseline. By offering instant access digital alternatives to documents such as bank statements, we will reduce colleague and customer dependence on paper communications and the associated waste.

Since 2015, overall paper consumption has reduced 56%, 14% of which was delivered in 2020. Internal colleague printing has fallen 47% this year, whilst statements and other customer documents have fallen 6%, in part due to the impact of the COVID-19 pandemic.

Streamlined Energy and Carbon Reporting

	2020*		2019	
Greenhouse Gas (GHG) Emissions	**UK and Offshore[1] Area**	**Global Total**	**UK and Offshore[1] Area**	**Global Total**
Emissions from the combustion of fuel and operation of any facility (Scope 1[2] Direct) CO_2e (tonnes)	18,960	21,110	17,445	20,684
Emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2[3] Indirect) location-based CO_2e emissions (tonnes)	63,166	90,944	81,392	125,127
Scope 2[4] (Indirect) Market-based CO_2e emissions (tonnes)	8,709	14,627	12,941	54,182
Total gross Scope 1 and Scope 2 emissions CO_2e (tonnes)	82,126	112,054	98,837	145,811
Scope 3[5] CO_2e emissions from business travel, paper, waste and water (tonnes)	14,550	19,811	32,163	49,613
Total gross CO_2e emissions (Scope 1, location-based Scope 2, Scope 3) (tonnes)	96,676	131,865	131,000	195,424
Energy consumption used to calculate above emissions (kWh)	353,624,334	427,528,477	417,541,093	565,600,065
Intensity ratio: Location-based CO_2e emissions per FTE (Scope 1, 2 and 3) (tonnes/FTE)	2.159	2.091	2.747	2.935

Methodology: We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from October 2019 to September 2020. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control. (1) Offshore area as defined in The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018. (2) Scope 1 Emissions from fluorinated gas losses and fuel combustion in NatWest Group premises/ vehicles, (3) Scope 2 Emissions from electricity, district heating and cooling used in NatWest Group premises, (4) Market-based Scope 2 Emissions and (5) Scope 3 Emissions associated with business travel by NatWest Group colleagues and paper, waste (UK and RoI) and water use have been calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance. When converting data to carbon emissions, we use Emission Factors from UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting (Department for Business, Energy & Industrial Strategy, 2020), CO_2 Emissions from Fuel Combustion (International Energy Agency, 2019) or relevant local authorities as required. For more information, please see natwestgroup.com

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

Climate Group Initiatives

In 2019, NatWest Group was jointly the first company globally to commit to all three of the Climate Group Initiatives pledging to:

CLIMATE GROUP

a. RE100 – Use only renewable electricity in our direct global operations by 2025.

In 2020 (1) we achieved our interim target of 90% renewable electricity coverage. This was achieved through a combination of:

- 91% of our UK and RoI electricity from renewable sources.
- Purchasing Renewable Energy Certificates (RECs) for our landlord-supplied properties in India, Europe and the UK, where we are currently unable to specify a requirement for renewable electricity.

Going forward, and in order to reach our target of 100% global renewable electricity by 2025, we will work with our principal landlords to advocate for renewable electricity provision for all properties, where possible.

b. EP100 – Improve Energy Productivity 40% by 2025 against a 2015 baseline.

We have increased energy productivity (FTE per GWh) by 36% since 2015 and are on track to reach our EP100 target.

This target is supported by a decrease in energy consumption. Across our global portfolio, electricity consumption decreased by 22% and natural gas consumption decreased by 14% when compared to 2019.

For more information on energy efficiency and decarbonisation investment projects, see Streamlined Energy and Carbon Reporting later in this section.

c. EV100 – Install electric vehicle charging infrastructure and upgrade our electric vehicle fleet.

The first part of our EV100 commitment is the installation of electric vehicle charging infrastructure in more than 600 spaces across our UK and RoI portfolio by 2030.

During 2020, 20 charge point connections were installed in Belfast and all remaining sites were surveyed ready to deliver the rest of the programme. We have engaged a third party to support the programme roll out, which will include the installation of over 250 chargers at our Gogarburn Headquarters.

The second part of our EV100 commitment is to upgrade our job need car fleet of around 300 combustion engine cars to fully electric models by 2025 (these vehicles are provided to colleagues who drive more than 10,000 miles per annum on business).

During 2020, we set the strategy for transition and agreed vehicle criteria including price, specification and range. From 2021, upon lease expiry of current diesel vehicles and where homebased infrastructure allows, we will provide these colleagues with an electric vehicle and home charge point.

(1) Our Own Operational Footprint reporting year runs from October 2019 to September 2020.

Sustainable Buildings

In keeping with our Net Zero Carbon achievement in 2020, NatWest Group have also become a signatory of the World Green Building Councils 'Net-Zero Carbon Buildings Commitment'. This provides a structure to help direct and drive efforts to eliminate carbon from our buildings.

We aim to improve the Energy Performance Certificate (EPC) rating across our buildings and are working with a third-party supplier to carry out energy and condition audits to identify and prioritise investment requirements.

In both branch and office design, we are aligning with best practice sustainable standards for furniture, finishing's and fittings, and where possible we repurpose and re-use furniture. In branches, when we do purchase furniture, it must be made of 90% recyclable materials, supported through our relationship with suppliers.

Colleague Engagement

We engage our colleagues on our operational footprint through social media, intranet articles, newsletters and through our employee led Sustainable Futures Network.

Our key engagement activities for 2020 included:

- Launching a carbon footprint calculator to help colleagues estimate their emissions and identify opportunities for improvement.
- Hosting Climate Week events to discuss our operational footprint, carbon offsetting and Innovation Gateway.
- Celebrating Earth Day and World Environment Day with activities across our global portfolio, including webinars on how we support biodiversity through tree planting and offsetting.
- NatWest Group India hosted the 10th Earth Heroes Awards as a virtual event, awarding eight outstanding conservation heroes. Initiated in 2011, this award has emerged as a prominent national platform to reward individuals and institutions who go beyond call of duty to conserve nature and wildlife.

Suppliers

As part of our journey to Climate Positive, we recognise that our impact on the environment extends into the supply chain. Recent work by The CDP in 2019 identified that supply chain impact is 5.5 times that of an organisation's own operations.

In September 2020 we launched our new Supplier Charter setting our aims and expectations in terms of ethical business conduct, human rights, environmental sustainability and diversity and inclusion. Among others, suppliers will need to consistently uphold high standards in environmental protection and actively collaborate to maximise environmental benefit and mitigate environmental risks.

We have also worked with a third party to independently benchmark our suppliers through evidence-based assessments and subsequently develop improvement plans with suppliers. We are also using transactional data to model our supplier footprint. From here, we will develop the long term goals and relationships we need to reduce the impact of our value chain.

Relationships

At NatWest Group, we have reserved at least 25% of places in our Entrepreneur accelerator hubs for businesses supporting environmental activities. For example, we are supporting, and in one of our offices trialling, a prototype cup-cleaning and water refilling station, which helps to reduce single use plastics.

We founded the Innovation Gateway Programme in 2015, an alliance of leading UK organisations working to produce innovative solutions to reduce the environmental impact of operations. In 2020, highlights included the installation of solar power on three mobile banks and the trial of corrosion monitoring, reducing carbon emissions from chillers at our 250 Bishopsgate office.

Energy Efficiency

Although the pandemic has impacted and delayed the delivery of many energy efficiency and decarbonisation investment projects, a number of key projects were still completed in 2020. Notable highlights include:

- UK data centre environments – We replaced the chillers that provide the necessary internal space cooling at one of our data centres, reducing electricity use by more than 600,000 kWh annually.
- Lighting upgrades – We have implemented lighting upgrades at two of our major office buildings in Belfast and London, resulting in a c.420,000 kWh electricity reduction annually across both locations.
- UK and RoI retail branch upgrades – We have invested in upgrading the equipment that serves our retail branches during 2019-20, including boiler replacements to more energy efficient models, upgrades to air conditioning units and installation of building management systems (BMS). We estimate that the installation of a BMS in our branches, which optimises all the large energy-using equipment, saves on average 7,000 kWh annually, compared to not having a BMS installed.
- UK Stand-by generation replacements – We have removed older, more polluting diesel back-up generators at two of our office locations in London and the South East of England, as well as removing older generators at one of our data centres. These projects will both reduce carbon emissions and improve local air quality.

5.6 Preliminary estimates of financed emissions

Context of Paris alignment at NatWest Group

In February 2020, we set ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement. Financing activity refers to the loans and investments (debt securities and equity shares) on NatWest Group's balance sheet. We use financed emissions as a key metric to estimate the climate impact of our financing activity on the real economy. Financed emissions are absolute GHG emissions that NatWest Group finances through its lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol.

During 2020, we worked on developing our capabilities to estimate our financed emissions to enable us to:

(i) Identify, assess and manage climate-related risks and opportunities,

(ii) understand the drivers of climate-related transition risks and opportunities in our business,

(iii) set and navigate emissions reduction goals,

(iv) act to reduce our climate impact.

Estimating financed emissions in absolute terms, measured as million tonnes of carbon dioxide equivalent per year (absolute emissions), provides us with the necessary baseline for climate action to align with the 2015 Paris Agreement. In addition to this, emissions intensities are also useful for banks and investors to manage climate transition risks, set targets or create new products and services to maximise climate opportunities, whilst supporting customers to transition. Emissions intensities are absolute emissions per specific unit e.g. metre or kilometre. Different intensity metrics can be used for steering or aligning emissions reductions in certain asset classes of sectors of a portfolio.

During 2020, we focused on estimating financed emissions and emissions intensities for four sectors: residential mortgages, agriculture (primary farming), automotive manufacturers and oil and gas extractors. These four sectors were selected based on their proportion of the NatWest Group's total loans and investments as at 31 December 2019 in combination with climate impacts associated with the sector. Further considerations included whether appropriate methodologies for estimating emissions intensities were available.

In 2020, we focused on developing the preliminary emissions estimates for the four sectors. The different characteristics of these sectors enabled us to build a better understanding of opportunities and challenges, for aligning to the 2015 Paris Agreement, specific to these sectors. We focused on aligning our approach with existing and recognised methodologies, where possible.

A common theme across the selected sectors related to building climate data capability. Existing climate-related granular customer information isn't readily available in all cases. As a result, the preliminary estimates included in this section have required use of assumptions, extrapolations or aggregation at sub-sector levels, as noted in sections 5.6.1 to 5.6.4. We will engage with customers, stakeholders, and participate in wider initiatives, to help enhance the availability of granular climate-related data for customers. Based on these limitations, we expect future estimates of these four sectors' emissions to change as we improve our data and develop our methodologies further.

During 2021 we intend to continue to broaden our analysis to other sectors. Our preliminary analysis reinforced the urgency and the scale of transition required to align our financing activities to the 2015 Paris Agreement. Addressing the climate crisis is not something NatWest Group or any individual organisation can do on its own. There is a dependency on the Government and clear, early regulatory policy, as well as on our customers and society to respond. At the same time, as a purpose-led organisation, we aim to engage and support our customers' transition to a low carbon economy.

In addition to 2019 baseline absolute emissions and emissions intensity estimates, we have also prepared initial estimates of emissions intensities required for alignment with the 2015 Paris Agreement in 2030 and 2050. The outputs of this early analysis suggests that significant emission reductions will be required and that meeting Paris alignment by 2030 will be challenging. These 2030 and 2050 emissions intensity estimates will also be affected by external factors including government and regulatory policy, voluntary codes of practice, customer appetite, market forces and developments in climate science and technology.

Using these initial outcomes, we worked with business leads for the sectors analysed to start setting out actions to support the transition to low carbon economy. We will continue to build these actions during 2021 as we learn more from further analysis. Once defined, it is also our ambition to embed these actions into decision making across the organisation which requires the building of climate data capability, new tools which integrate with financial planning, and also education. Over time, we expect climate data granularity to improve as we move towards utilising direct customer climate data.

Methodologies, standards and standard setters

We acknowledged from the outset that the analysis of financed emissions would be challenging with new and evolving methodologies. We recognise that cooperation and collaboration are key to tackle the causes of climate change and transition to a low carbon economy. During 2020 we joined market leading collaborative groups with the aim of supporting the development of market standards. The table below summarises the various collaborations and guidance NatWest Group has used to develop methodologies for estimating financed emissions and preliminary estimates of emission intensities for 2030 and 2050:

Organisation	Description	Use of this work in NatWest Group methodology
Partnership for Carbon Accounting Financials (PCAF)	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.	Where available, NatWest Group uses methodologies in the PCAF standard to measure financed emissions. In addition, we have used PCAF data quality and disclosure principles to guide our work.
Science Based Targets initiative (SBTi)	SBTi drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets. In November 2020, SBTi published guidance for financial institutions to set science-based targets, to align their lending and investment activities with the 2015 Paris Agreement.	NatWest Group joined SBTi following the launch of Financial sector science-based targets guidance in 2020. While we haven't yet set targets, we have used SBTi's Sectoral Decarbonisation Approach (SDA), where available, to assess initial emissions intensity estimates for 2030 and 2050, for certain sectors. We have also followed SBTI and PCAF guidance where possible to assess the most appropriate emissions intensity metrics.
Katowice Banks in partnership with the 2 Degrees Investing Initiative (2DII)	Katowice Banks refers to the five international banks that pledged at the 2018 COP24 in Katowice to develop an open-source methodology to progressively steer (or 'align') their lending portfolios with the goals of the 2015 Paris Agreement. In September 2020, 2DII and the Katowice Banks launched their Credit Portfolio Alignment methodology for applying the 2015 Paris Agreement Capital Transition Assessment (PACTA) methodology to banks' credit lending portfolios.	Where SBTi guidance has not been developed in detail, NatWest Group has referred to Credit Portfolio Alignment: an application of the PACTA methodology by Katowice Banks (Katowice Banks guidance) in partnership with the 2 Degree Investing Initiative' (September 2020). This includes estimating tailpipe emissions intensity in the automotive manufacturing sector and focusing on extraction activities in the oil and gas sector.
Committee on Climate Change or (CCC)	The CCC is the UK's independent adviser on tackling climate change. CCC advises the UK and devolved governments on emissions targets and reports to Parliament on progress made in reducing GHG emissions and preparing for, and adapting to, the impacts of climate change.	The CCC published the 'Sixth Carbon Budget, the UK's path to net zero' in December 2020. As a largely UK-focused bank, we selected the CCC's 'Balanced net zero' pathway to estimate emissions intensities for 2030 and 2050. We have used this scenario for assessing indicative emissions estimates for agriculture and residential mortgages.
Network for Greening the Financial System (NGFS)	NGFS is a group of central banks and supervisors willing, on a voluntary basis, to share best practices and contribute to the development of the environment and climate risk management in the financial sector.	In June 2020, NGFS published climate scenarios to provide a common starting point for analysing climate risks to the economy and financial system. Scenarios used for estimating emissions intensities are broadly aligned with the NGFS's orderly scenario with early ambitious action to a net zero emissions economy. As noted in section 2.8, NatWest Group will also use NGFS scenarios for the CBES 2021 exercise.
The International Energy Agency (IEA)	The IEA provides data, analysis and policy recommendations on all matters relating to fuels and energy generation. This includes developing forecasts and scenarios for the energy industry that are consistent with various climate-based objectives.	We have used the IEA Beyond 2°C Scenario (B2DS) from the Energy Technology Perspectives (ETP) report for assessing indicative emissions estimates for automotive manufacturing.

The table below provides an overview of the standards, methodologies and scenarios used as inputs for assessing absolute emissions as well as estimated emission intensities. Also included is the metrics used for measuring emissions intensity estimates for each sector.

Sector	Financed Emissions standard	Scenario	Approach used to estimate Paris-aligned emissions intensities	Emission intensity metrics used [3]
Residential mortgages	PCAF (November 2020)	CCC, sixth carbon budget (1.5 degrees, 50% probability)	SDA [1]	$kgCO_2e/m^2$ [4]
Agriculture (primary farming)	PCAF (November 2020)	CCC, sixth carbon budget (1.5 degrees, 50% probability)	SDA [2]	tCO_2e/£M revenues [5]
Automotive manufacturing	PCAF (November 2020)	IEA ETP's B2DS scenario (1.75 degrees, 50% probability)	Katowice Banks pending finalised SBTi sector specific guidance	gCO_2/km [6]
Oil and gas extraction	PCAF (November 2020)	N/A	Guidance under development	tCO_2e/TJ [7]

(1) For estimating emissions intensities for 2030 and 2050 for residential mortgages, we have used UK specific data from the CCC sixth carbon budget. Our methodology is consistent with the principles set out in the SDA.

(2) The guidance for agriculture is developing; the SBTi guidance on agriculture, forestry and other land use (AFOLU) is expected to be released in Q2 2021. For work in 2020, we have used the general principles of the SDA approach, in conjunction with PCAF guidance, to estimate Paris-aligned emissions intensities for 2050.

(3) Emissions intensity refers to emissions relative to a specific business metric, such as production output or financial performance of a company (e.g. tonne CO_2e per tonne product produced or revenue).

(4) For residential mortgages, floorspace varies between properties and larger properties tend to produce a larger quantity of absolute emissions as a result, floorspace has been used as the metric for assessing physical emissions intensity. $kgCO_2e/m^2$ is kilograms carbon of carbon dioxide equivalent emitted per square metre.

(5) Where detailed information on physical activity is not available, PCAF permits use of revenue-based intensity. We have used revenue based intensity metric for the agriculture sector. Refer to sections 5.6.2 for more details. tCO_2e/£M revenues is tonnes of carbon dioxide equivalent emitted per million of revenue.

(6) For automotive manufacturing, emissions intensity is based on kilometres travelled as this reflects the emissions for distance travelled. We estimate tailpipe emissions intensity i.e. the emissions exclusively related to the burning of fuel in vehicles and do not take into account entire lifecycle emissions. gCO_2/km is the grams of carbon dioxide emitted per kilometre.

(7) For oil and gas extraction, quantity of energy produced by each fuel source has been used to assess emissions intensity. tCO_2e/TJ is tonnes of carbon dioxide equivalent emitted per terajoule.

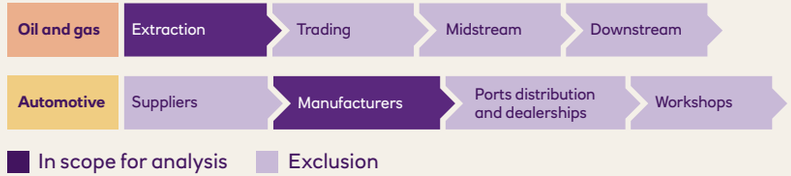
In our work we use scenarios developed by different organisations: NGFS for scenario analysis and risk assessment; IEA and CCC for estimates of emissions intensities. Use of a particular scenario is primarily driven by the use-case and the level of detail required for the analysis. Our use of the NGFS scenarios is in line with the approach that the Bank of England is taking for its CBES stress test, which will leverage the NGFS reference scenarios. While we use different scenarios, we ensure that there is overall consistency between them.

Our overall aim is to align our operations with the 2015 Paris Agreement target of well below 2°C warming by the end of the century. The Orderly transition scenario from the NGFS (Immediate 2°C with carbon dioxide removal) satisfies this requirement – there is a 50% chance that the temperature will increase by less than 1.75°C by the end of the century. We complement it with the Balanced Net Zero Pathway from the sixth Carbon Budget from the CCC to assess emissions intensity estimates for residential mortgages and agriculture, and with the IEA Energy Technology Perspectives (ETP) B2DS scenario to assess emissions intensity estimates for automotive manufacturing. Both of these additional scenarios are at least as ambitious as the NGFS Orderly transition scenario.

Analysis performed during 2020 is based on NatWest Group loans and investments balances as at 31 December 2019.
The total loans and investments to the four sectors and balances analysed for absolute emission and emissions intensity estimates in noted in the table below:

	2020	2019			
Sectors	**Total loans and investments (£bn)**	**Total loans and investments (£bn)**	**Loans and investments used to estimate financed emissions and emission intensity estimates**		**Reason for difference or exclusion:**
			Balance (£bn)	**% analysed**	
Residential Mortgages	190.5	174	174	100	The entire residential mortgage portfolio has been included for calculation of financed emissions.
Agriculture	5.3	4.9	3.8	78	Customers engaged in primary farming activity have been included as they have relatively uniform emissions profiles that can be matched to external targets like the CCC. Balances excluded primarily relate to forestry and fishing, and other agriculture related ancillary, manufacturing and service activities.
Automotive	6.3	6.2	0.3	5	Aligned to the Katowice Banks guidance which recommends focusing on sectors that are both material contributors to emissions and have significant ability to drive mitigation, we have limited the scope of our analysis to automotive manufacturing activities. The manufacturers of cars are in a better position to change the emissions profile of vehicles than equipment manufacturers, or companies involved in car rentals or sales. See diagram on this page for sub-sectors of the oil and gas value chain we analysed and excluded for the purpose of this work. In addition, emissions and production data from major motor vehicle manufacturers was freely available in annual reports and sustainability disclosures.
Oil and gas	1.6	2.1	0.6	29	Aligned to the Katowice Banks guidance which recommends focusing on sectors that are both material contributors to emissions and have significant ability to drive mitigation, we have limited scope to oil and gas extraction activities. See diagram on this page for sub-sectors of the oil and gas value chain we analysed and excluded for the purpose of this work. In addition, emissions and production data for oil and gas extraction companies are widely available from customers' sustainability disclosures and annual reports.
Total	**203.7**	**187.2**	**178.7**	**95.5**	
Total NatWest Group [1]	**428.4**	**399**		**44.8**	

(1) Comprises loans and advances to banks and customers, debt securities and equity shares at amortised cost and FVOCI, gross of ECL.



Calculation of Financed emissions

Financed emissions refer to the total GHG emissions of an asset class or sector that is attributable to NatWest Group. In line with PCAF standard, we have calculated absolute emissions based on Scope 1 and 2 emissions attributable to loans and investments for the sectors or sub-sectors analysed. In addition, for our oil and gas extraction and automotive manufacturing sectors, we have included Scope 3 emissions based on downstream use of products sold as they constitute a large proportion of the overall estimated emissions in these sectors. In general, as per the PCAF standard, financed emissions are estimated based on the following formula:

$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}$$
(with i = borrower or investee)

$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$$

Attribution factor: As per the GHG Protocol, absolute GHG emissions from loans and investments are allocated to the reporting financial institutions based on the proportional share of loans and investments in the borrower or investee.

The attribution factor is calculated by determining the share of the outstanding amount of loans and investments of a financial institution over the total equity and debt of the borrower or investee company. We used total assets to calculate the attribution factor for automotive manufacturing and oil and gas, and original property valuation for residential mortgages.

As previously mentioned, there are current data limitations primarily related to lack of granular and sub-sector customer data availability. The PCAF standard provides guidance on data quality scoring methodology to help assess data quality challenges and recognise areas for improvement. PCAF's ratings generally assign directly collected customer emissions data a better score and estimated or extrapolated achieve lower scoring. In practice, data limitations mean that sectors are generally footprinted using a mixture of customer specific and estimated data at a sub sector level. PCAF therefore suggests assigning a 'weighted' score to reported sectors based on the relative exposure associated with different methodologies. For example, if 50% of a sector's exposure has directly collected data with a score of 2, and the remainder using estimated data that achieves a score of 4, it's weighted PCAF score would be $2 \times (50\%) + 4 \times (50\%) = 3$.

The table below shows our preliminary estimates based on our work to date and should be read in conjunction with Section 5.7 (Caution about climate metrics) and Risk factors included in the 2020 Annual Report and Accounts.
The table below shows NatWest Group's (i) estimated financed emissions, (ii) physical and economic emissions intensities for the four sectors reviewed, (iii) preliminary physical emissions intensity estimates for year 2030 aligned to NatWest Group's climate ambition to reduce climate impact of financing activity by 50%, as well as for Paris alignment, (iv) Paris alignment physical emissions intensity in 2050. We will continue to work on this in 2021 and further refine our estimates as we enhance our understanding, calculation methodologies and data. We have used a combination of methodologies (some of which are still under development) to calculate these emissions. See section 5.6.1 to 5.6.4 for further details, by sector, on methodologies and approaches used, as well as data limitations.

	Preliminary estimates of financed emissions and emission intensities 2019						Preliminary emission intensity estimates 2030 and 2050		
Sector	**Financed emissions ($MtCO_2e/y$) [1]**		**Physical emissions intensity [2]**	**Economic emissions intensity (tCO_2e/£M invested) [3]**	**PCAF Data quality score**		**Proposed 50% absolute emissions reduction intensity (2030)**	**Paris alignment emissions intensity (2030)**	**Paris alignment emissions intensity (2050)**
	Scope 1 and 2	**Scope 3**			**Scope 1 and 2**	**Scope 3**			
Residential mortgages	2.2		39 $kgCO_2e/m^2$	12	4.1		19 $kgCO_2e/m^2$	20 $kgCO_2e/m^2$	0.1 $kgCO_2e/m^2$
Agriculture (primary farming)	3.6		2,205 tCO_2e/£m revenue	940	4.3		1,103 tCO_2e/£m revenue	1,449 tCO_2e/£m revenue	1,165 tCO_2e/£m revenue
Automotive manufacturing[4]	0.01	0.53	168 gCO_2/km	1,790	2.1	3.1	84 gCO_2/km	121 gCO_2/km	31 gCO_2/km
Oil and gas extraction	0.08	1.9	75 tCO_2e/TJ	3,054	2.4	2.6	38 tCO_2e/TJ	Guidance under development	Guidance under development

Notes:

(1) $MtCO_2e/y$ is million tonnes of carbon dioxde equivalent emitted per year.

(2) Physical emissions intensity: Financed emissions divided by an output or activity value.

(3) Economic emissions intensity: Financed emissions divided by the loan and investment amount. This helps understand how the emissions intensity of different portfolios (or parts of portfolios) compare to each other per monetary unit.

(4) For automotive manufacturing, Scope 3 emissions and emissions intensity estimates only relate to tailpipe emissions.

5.6.1 Residential mortgages

Reducing emissions associated with our residential mortgage portfolio will be critical to meeting our climate ambitions.

In February 2020, NatWest Group committed to support our UK and RoI mortgage customers to become more energy efficient with an ambition that 50% of our mortgage book is at or above EPC C or equivalent rating by 2030. To estimate financed emissions, we used EPC data as an estimate of the underlying climate impact. As referred to in section 5.2.1, EPC data is sourced from publicly available customer information for England and Wales for the year of inspection by qualified EPC surveyor. As EPC ratings only need to be updated every 10 years or after significant retrofits, point of sale or lease, not all properties have current EPC ratings.

Financed emissions estimates: For the purpose of calculating financed emissions estimates, EPC data has not been adjusted for any assumed energy efficiency changes since the date of collection. For Scope 2 financed emissions estimates, EPC data collected prior to 2019 has been adjusted only for the decarbonisation of the UK grid between the year of inspection and 2019.

PCAF data quality score: Our residential mortgages estimate achieves a weighted PCAF data quality score of 4.1. The weighting is based on two scores:

a. **Publicly available data:** As at December 2019, EPC data was available for just under half of the residential mortgage portfolio which achieved a PCAF data quality score of 3. Refer to section 5.2.1 for analysis of EPC data availability at December 2020.

b. **Extrapolated data:** To estimate EPC ratings for properties which did not have publicly available EPC data, we used average emissions profile of properties for which EPC data was available. This is based on the assumption that properties without EPC ratings have the same emissions intensity profile as those with available EPC ratings. This results in PCAF data quality score of 5.

Estimated 2030 and 2050 emissions intensity: Our preliminary estimates for the Paris aligned emissions intensities for 2030 and 2050 are based on the CCC's sixth Carbon Budget, "Balanced Net Zero", emissions pathway and UK floorspace projections. We project floor space to 2050 using the CCC's estimates of "new homes" in the UK between 2019 and 2050, in conjunction with the UK's housing stock in 2019.These are then multiplied by the average floorspace in the UK (as derived from the National EPC data). The current Scope 2 estimate is based on CCC's estimated household electricity consumption and the overall emissions intensity of UK electricity. The intensity estimate was calculated using SBTi SDA. We estimate that by 2030, our average financed physical emissions intensity will need to fall significantly to be aligned with the 2015 Paris Agreement, from an estimated 39 $kgCO_2e/m^2$ in 2019 to 20 $kgCO_2e/m^2$ in 2030, and then further still to 0.1 $kgCO_2e/m^2$ in 2050.

How we will support customers to transition Our ambition for Paris alignment for the residential mortgage portfolio is challenging. It reflects the fact that reducing the carbon emissions from residential property in the UK is a complex and challenging goal, which will require a systemic response from parties across the sector, including government, energy suppliers, housebuilders and lenders. We have a clear role to play within the ecosystem to engage and inform customers and provide product solutions to fund home improvements and continue to develop our plans.

We are clear that we can play an important role engaging with our mortgage customers to inform and increase awareness of the benefits and options available, helping them to improve home energy efficiency through making home improvements. Building on the launch of our Green Mortgage product, refer section 2.2, we will continue to develop green financial products to reward and incentivise the purchase of the most energy efficient properties, measured by their EPC, but also to allow customers to fund home improvements that increase the energy efficiency of existing properties. We will also take a proactive stance to sector engagement, working with government, as well as across the finance sector with NGOs (e.g. Green Finance Institute) to align to industry standards and create consistency for customers regarding Green Financing.

5.6.2 Agriculture

Customers engaged in primary farming activity with lending and investments of £3.8 billion were reviewed to estimate financed emissions.

Financed emissions estimate: As primary farming activities do not have a homogenous unit of output base (i.e. farmers sell different products), constructing an emissions intensity metric based on physical output is challenging. We have used UK-specific sector level revenue emissions intensity metrics from EXIOBASE 2011 and applied these to customer revenues to estimate absolute emissions. Availability of more detailed customer level data will allow us to use customer specific emissions factors.

EXIOBASE is a global, detailed multi-regional environmentally extended supply use table and input-output table. EXIOBASE was developed by harmonizing and detailing supply use tables for a large number of countries, estimating emissions, and resource extractions by industry.

We have included five GHGs (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs)) from EXIOBASE in our emissions estimates. In line with the CCC's sixth carbon budget, we use the 'high' global warming potential (GWP) values with carbon-cycle feedbacks for methane and nitrous oxide from the IPCC 5th Assessment Report. Carbon cycle feedback refers to how the collection of processes that sees carbon exchanged between the atmosphere, land, ocean and organisms could change as the Earth warms and atmospheric CO_2 concentrations rise.

PCAF data quality score:

a. **Publicly available data:** Emissions intensity for £2.5 billion of agriculture primary farming balances reviewed was estimated using sector level emissions factors from EXIOBASE, achieving data quality score of 4.

b. **Estimated data:** For the remaining £1.3 billion balance, we applied the emissions intensity profile available in a above, achieving a data quality score of 5.

This results in overall weighted data quality score of 4.3. To improve the quality of data inputs for the agriculture sector in future years, we plan to collect data on production and processes from agricultural customers to better measure their carbon footprint and track progress over time.

According to the CCC's sixth carbon budget, decreasing emissions in the agriculture sector will be driven by several decarbonisation strategies, such as improved soil management practices, improved livestock health and breeding, reductions in food waste and diet changes that will reduce the demand for and production of beef and thus, the associated emissions.

Emission intensity estimates for 2030 and 2050: Currently, there is limited guidance on modelling Paris aligned emissions intensities for agriculture, with the SBTi guidance on agriculture, forestry and other land use (AFOLU) due to be released in Q2 2021. For the 2030 and 2050 preliminary emissions intensity estimates, we have used Scope 1 and 2 emissions pathways from the CCC sixth Carbon Budget. We constructed revenue projections for the agriculture sector in the UK to 2050 based on the assumption that food demand grows in line with the World Bank's population forecasts for the UK. Based on this approach, the emissions intensity of NatWest Group's agriculture portfolio would need to reduce from 2,205 tCO_2e/£m revenue to 2,449 tCO_2e/£m revenue in 2030 to be on track to meet the 2015 Paris Agreement goals.

From a wider market perspective, the UK National Farmers Union has set the ambitious goal of reaching net zero GHG emissions across the whole of agriculture in England and Wales by 2040, and are aligning measures under three broad headings:

- Improving farming's productive efficiency;
- Improving land management and changing land use to capture more carbon;
- Boosting renewable energy and the wider bioeconomy.

The NFU have stated that in reducing agriculture's impact on climate, the UK must not achieve its climate change ambitions by exporting UK production, or our GHG emissions, to other countries. NatWest Group is actively exploring opportunities for GHG emissions reductions in agriculture aligned with the UK Agricultural Bill/ Act and the transition to the Environmental Land Management Schemes (ELMSs) in England and corresponding schemes in the devolved nations. Possible options include assisting farmers in changes of land use and increasing sequestration uptake by our customers.

NatWest Group is committed to supporting our specialist relationship managers with climate-related training, and climate-related questions are being added to our agriculture sector customer engagement. These measures will support the consistent coverage of climate issues in future collaborations with customers, with the aim to support and help them transition to a low carbon resilient economy.

We are currently working on a pilot with individual farming customers to develop a universal approach in understanding the sustainability and climate impact of their farms. If successful, further development will enable the bank to understand the impact of our agriculture portfolio whilst providing our farming customers with individual support on their climate journey.

5.6.3 Automotive manufacturing (cars and light commercial vehicles)

Financed emissions estimates: NatWest Group absolute financed emissions for automotive manufacturing includes Scope 1, Scope 2 and Scope 3 tailpipe emissions. Scope 1 and Scope 2 emissions were taken directly from customers' sustainability reports.

In addition, Scope 3 tailpipe emissions have been included, aligned with the Katowice Banks approach. Tailpipe emissions refer to emissions exclusively related to the burning of fuel in vehicles and do not take into account entire lifecycle emissions. As the reporting for Scope 3 tailpipe emissions is not uniform across all customers, we estimate it using average tailpipe emissions factors for car model and fuel combinations from the Worldwide Harmonised Light Vehicle Test Procedure (WLTP), a global harmonised standard of drive cycle test to determine the tailpipe emissions and fuel efficiency of passenger cars. These tailpipe emissions factors are applied to global sales data (by model type) taken from customers' annual reports to calculate Scope 3 tailpipe emissions.

In line with guidance from Katowice banks, we also estimate the Scope 3 tailpipe emissions intensity (in gCO_2/km) for our automotive manufacturing portfolio. This is calculated based on the estimated Scope 3 tailpipe emissions, data on customer financials and reported sales, and an assumption of average vehicle lifecycle of 150,000 kms based on the IEA Global EV Outlook report.

PCAF data quality score:

a. **Scope 1 and Scope 2:**

(i) **Publicly available data:** We were able to use data from customers' externally available disclosures for 97% customers. This achieved data quality score of 2.

(ii) **Extrapolated data:** For the remaining 3%, we estimated emissions data based on the emissions profile of the rest of the population, achieving data quality score of 5.

This results in overall data quality score of 2.1.

b. **Scope 3:** As above, for 97% of our Automotive manufacturing portfolio, we estimated the Scope 3 tailpipe financed emissions using emissions factors from WLTP and the reported global sales by customers. For the rest of the portfolio, we extrapolate Scope 3 tailpipe emissions based on the 97% population for which information is available. This achieved a data quality score of 3.1.

Estimated 2030 and 2050 emissions intensity: The 2030 and 2050 preliminary intensity estimates are based on vehicle sales by fuel type using the global vehicle stock projections from the IEA ETP's B2DS. Key assumptions include those related to operational lifetime of vehicles and replacement rates by fuel type, based on the IEA Global EV Outlook. In addition, we have assumed a constant vehicle efficiency by fuel type i.e. that the grams of CO_2 per km emitted by cars of a fuel type remains constant until 2050, informed by the 2019 BEIS emissions factors for an average vehicle (split by fuel type). Vehicle emission factors by fuel type are applied to construct a weighted average emissions intensity for new vehicles sales to 2050. The preliminary emissions intensity estimates suggest that EV sales would need to be approximately 45% (as a top-end estimate) of total global sales by 2030, to achieve Paris alignment, based on the assumptions listed above.

A switch from internal combustion engine vehicles to EVs will play a key role in achieving Paris alignment in the automotive sector. In November 2020, the UK Government made a commitment to further support EV manufacturing as part of a £2.8 billion investment, which will greatly support the sector transition. In addition, the UK Government announced that new cars and vans powered wholly by petrol and diesel will not be sold in the UK from 2030. NatWest Group's Future Mobility Group has launched various initiatives to support customers and colleagues, as discussed in section 2.2.

5.6.4 Oil and gas extraction

Financed emissions estimate: In the oil and gas sector, we calculated financed emissions for customers engaged in extraction activities. In addition, we have included Scope 3 emissions in our financed emissions estimates for the oil and gas extraction sub-sector as these have a high climate impact. This is in line with the Katowice Banks guidance.

We used reported emissions and production data from our customers' annual reports (where available) to construct emissions intensity estimates for 2019.

PCAF data quality score:

a. **Publicly available data:** For 96% customers, we sourced Scope 1, Scope 2 and Scope 3 emissions data from their sustainability reports. Where any of this information was missing, we estimated the emissions using reported production and estimated emissions factors. For directly sourced emissions, we achieve a data quality score of 2 whereas for the portion of the portfolio that we estimate the emissions for, we achieve a data quality score of 3.

b. **Extrapolated data:** For the rest of the portfolio (4%), we extrapolated the estimated financed emissions based on the population for which data is available. This achieved a data quality score of 5.

This achieved overall data quality score of 2.4 for Scope 1 and 2, and 2.6 for Scope 3.

We have not yet developed a Paris aligned emissions pathway to 2050, as SBTi guidance for the oil and gas sector is still under development. We continue to liaise with SBTi on this.

During 2020, we have continued to reduce our loan and investments in the oil and gas sector from £2.1 billion to £1.6 billion primarily due to tighter lending criteria. During 2021, we will work with major oil and gas customers as part of the credible transition plan work to assess future actions. We expect further reductions in 2021 and beyond based on tighter lending criteria for the sector and the on-going assessment of customers' transition plans. We continue to support our selected customers in the North Sea oil and gas sector as they focus on reducing emissions, transitioning to low carbon energy solutions and decommissioning.

5.7 Caution about climate metrics

Climate metrics, particularly targets, projections, forecasts and other forward-looking climate metrics, used in this document merit special caution about their usefulness in decision-making as they are more uncertain than, say, historical financial information.

Climate metrics may be:

- estimates of historical emissions, such as financed emissions, absolute emissions, and various emissions intensity metrics or estimates of historical climate change, temperatures and other information; or
- forward-looking climate metrics, such as targets, climate scenarios and emissions intensity pathways, and estimated climate projections and forecasts. See 'Forward-looking climate-related metrics and other statements' below.

The evolution of climate change and its impacts is highly uncertain. Accordingly, both historical and forward-looking climate metrics are likely to be even more inherently uncertain and, therefore, less decision-useful than metrics based on historical financial statements.

What makes climate change different?

There are many reasons why climate change and climate-related risks may be different to conventional financial risks. The most important of which include:

- they are unprecedented - past performance is, therefore, not a good predictor of the future;
- their complexity – they are a 'new type of systemic risk that involves interacting, nonlinear, fundamentally unpredictable, environmental, social, economic and geopolitical dynamics'

  (Source: Bank of International Settlement Report, 2020);
- projections of climate change and temperature tend to be long-term as scenarios that play out over at least several decades;
- the further out the projection or forecast, the greater the uncertainties and the less likely things will transpire as projected;
- while understanding about different types of climate-related risks is advancing quickly, understanding about how different climate-related risks could interact remains in an incipient stage:
  - they don't operate in isolation;
  - they may interact with each other – meaning physical and transition risks interact with each other in ways that compound their joint effects;
  - they are likely to be highly correlated and subject to triggers or tipping points, meaning that they could suddenly get a lot worse in a lot of places at the same time;
- climate-related risks may also interact with non-climate-related risks and vulnerabilities. For example, climate-related risks could further amplify other vulnerabilities, such as historically high levels of corporate and household debt and the effects of the COVID-19 pandemic, which has depleted corporate and household bank balances and created more debts;
- climate change and the related risks may be irreversible if certain triggers and tipping points are reached- though we don't know for sure what those triggers and tipping points are, or how and when they may happen or develop; and
- both physical and transition risks, because they are novel, represent a challenge to the analytical parameters of conventional risk identification, measurement and management, which often focus on specific plausible, but extreme events that have some basis in prior experience. 'Because risk is technically a probabilistic function of exposure, sensitivity and consequence, the novelty of climate change means that there is greater uncertainty and ignorance about the range of possible outcomes' (Source: U.S. Global Change Research Program, 2020).

There are, therefore, many significant uncertainties, assumptions and judgements underlying climate metrics that limit the extent to which climate metrics are useful for decision-making. The most important of these are:

Lack of reliable emissions and other important data

- Poor quality and availability of high-quality historical and current emissions, or sub-sector data is currently a significant obstacle to the calculation of carbon-related metrics. The absence of widely available, detailed, accurate and high-quality climate and sub-sector related information makes it challenging to accurately disclose or estimate metrics used to assess climate-related risks and opportunities. For more detailed information on data limitation, please refer to 'Limitations of climate-related risk modelling' (Section 2.8 – 'Scenario analysis') and to 'Preliminary estimates of financed emissions' (Section 5.6).
- The availability of climate, industrial classification, energy use and efficiency data - including information used as a proxy for that data (e.g. EPC rating) - depends on a variety of public, private and civic sector sources. Historically, climate data was largely environmental and weather data was produced by government agencies. However, the challenge is finding the relevant sources if they exist, and then validating, cleaning, and standardizing the data in an accessible form or format.
- Climate metrics and data, the models , scenarios used to create them and the measurement technologies, analytical methodologies and services that support them remain in an incipient stage. Accordingly, the quality and interoperability of these models, technologies and methodologies, is also at a relative early stage. Significant gaps in sectors, 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.

Lack of standardisation, transparency and comparability

- Many voluntary disclosure frameworks and methodologies for calculating climate metrics are new and evolving, leading to multiple metrics estimates that are not directly comparable.
- These differences are compounded by a lack of international coordination on data and methodology standards.
- Existing estimation methods present significant challenges and the development of a more market accepted consistent way of measuring and reporting Scope 3 emissions across sectors where they are material and relevant is needed.
- Among other factors, emissions intensity, demand and supply elasticity, and the associated pass-through of production prices to consumers impact vulnerability in the short-term, while transition plans, evolving consumer preferences and technology innovation impact vulnerability in the longer-term.
- 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.

Reliance on assumptions and future uncertainty

- Climate metrics are complex and require many methodological choices, judgements and assumptions.
- 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.
- 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.
- Many climate metrics and data are based on underlying assumptions made about climate changes, policies, technologies and other matters that are uncertain or not yet known. Any material change in these variables may cause the assumptions, and therefore, the climate metrics and data based on those assumptions, to be incorrect.
- 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.

Variation in approaches and outcomes.

- The methodologies for estimating and calculating GHG emissions or emissions intensities and other climate-related metrics vary widely in their approaches.
- Some methodologies use company-specific historical emissions data while others take a 'top-down' approach to attribute or estimate 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.

Limitations of climate scenario analysis and the models that analyse them

- The practice of modelling the impact of climate-related risks on the financial sector is in its infancy. Climate modelling is over half a century old as a discipline and scenario planning is a well-established discipline, so it may be more accurate to say that applying them to financial sector risks is a relatively new activity ('in its infancy' is the language of the BES discussion paper).
- Scenarios are not forecasts; 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.
- 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 degrees Celsius outcome, and many analysts draw similar conclusions about reaching 2 degrees Celsius. The cost and availability of such technologies has a significant effect on the estimated price of carbon that would be required to deploy them. Other things being equal, models that assume the availability of low-cost CCS or other as-yet-nascent technology will project more modest carbon prices to achieve stringent climate change mitigation goals. Models that assume limited availability of these technologies at low cost will project higher costs to achieve the same climate goals.
- Scientific understanding of climate change continues to develop. This may enable a more granular and precise understanding of some kinds of climate-related risks in future.
- Finally, models cannot fully capture the range of societal changes that could result from climate change. These could include changes in dietary preferences, migration patterns, and political preferences. As climate continues to change, decision-makers will respond in ways that can both create and alleviate risks. The costs of models do not fully capture the possibility of low-probability but high-impact risks and opportunities. Market actor and policymaker responses are complex and should be considered qualitatively along with a quantitative scenario analysis. Some of these limitations are inherent to many models but are in this case further exacerbated by the often-multi-decade time horizon and the complexity and interdependencies of the effects modelled, from ice sheet melting to agricultural yields and migration: To mitigate the limitations of scenarios and modelling, practitioners should: analyse multiple scenarios with various underlying assumptions and parameters.
- Over reliance by regulators or financial institutions on a limited number of the same prescribed models or scenarios (e.g. the NGFS scenarios) may amplify systemic climate-related risks.

Climate-related and other forward-looking statements and metrics

This report contains climate-related and other forward-looking statements and metrics, such as targets, climate scenarios and emissions intensity pathways, estimated climate projections and forecasts. Words or phrases such as 'anticipate', 'effort', 'estimate', 'believe', 'budget', 'continue', 'could', 'expect', 'forecast', 'goal', 'guidance', 'intend', '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 forward-looking statements.

The many significant uncertainties, assumptions, judgements, opinions, estimates, forecast, statements made of future expectations and certain non-historical data underlying forward-looking climate-related metrics (such as carbon and other emissions metrics) and metrics to assess climate-related risk and opportunity outside of carbon exposure may limit the extent to which these climate-related metrics are used to better understand risk and evaluate progress towards established strategies, targets, objectives, commitments and could cause actual results, performance or events to differ materially from those expressed or implied in such statements. The most important of these uncertainties and factors, including, without limitations, are

a) lack of reliable emissions and other important data;

b) quality of historical (emission) data;

c) lack of common definitions and standards for climate-related data;

d) lack of transparency and comparability of climate-related forward-looking methodologies;

e) variation in approaches and outcomes - variations in methodologies may lead to under- or overestimates, and consequently present exaggerated indication of climate-related risk;

f) limitations of climate scenario analysis and the models that analyse them;

g) reliance on assumptions and future uncertainty (calculations of forward-looking metrics are complex and require many methodological choices and assumptions);

h) uncertainty around future climate-related policy; and

i) complexity of calculation may require the assistance of one or more external data and methodology provider.

Any climate-related forward looking statements made by or on behalf of NatWest Group speak only as of the date they are made, and NatWest Group assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information or for any other reason.

This forward-looking statement in relation to climate-related metrics should not be regarded as a complete and comprehensive statement and should be read together with a fuller description of Section 5.7 of this report (Caution about climate metrics) and together with the Forward-looking statements of the 2020 Annual Report and Accounts; and the risk factors in relation to 'Climate and sustainability related risks' in the 2020 Annual Report and Accounts that describes several particular uncertainties, climate and sustainability related risks to which NatWest Group is exposed. The most important of these are discussed here:

- NatWest Group and its customers may face significant climate-related risks, including in transitioning to a low carbon economy, which may adversely impact NatWest Group.
- NatWest Group's Purpose-led strategy includes one area of focus on climate change that is likely to require material changes to the business of NatWest Group which entails significant execution risk.
- Any failure by NatWest Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NatWest Group's ability to manage climate-related risks.
- There are significant uncertainties inherent in accurately modelling the impact of climate-related risks.
- A failure to adapt NatWest Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability related risks and opportunities may have a material adverse effect on NatWest Group's reputation, business, results of operations and outlook.
- Any reduction in the ESG ratings of NatWest Group could have a negative impact on NatWest Group's reputation and on investors' risk appetite.
- Increasing levels of climate, environmental and sustainability related laws, regulation and oversight may adversely affect NatWest Group's business and expose NatWest Group to increased costs of compliance, regulatory sanction and reputational damage.
- NatWest Group may be subject to potential climate, environmental and other sustainability related litigation, enforcement proceedings, investigations and conduct risk.

6. Glossary and Abbreviations

Glossary and Abbreviations	
Item	Description
Climate and Sustainable Funding and Financing	Funding and financing for climate and sustainable finance to support transition towards a low carbon and climate resilient economy. NatWest Group use internally defined Climate and Sustainable Finance Inclusion Criteria (CSFI criteria) published in 2020 to determine the assets, activities and companies that are eligible to be counted towards its £20 billion target for climate and sustainable funding and financing.
Climate Biennial Exploratory Scenario exercise (CBES)	Bank of England initiative to explore the financial risks posed by climate change. The exercise will test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks and therefore the scale of adjustment that will need to be undertaken in coming decades for the system to remain resilient.
Climate Change Vulnerability Index (CCVI)	Evaluates the countries' relative vulnerability of its economic, fiscal, external and political trends to climate physical and transition risks. It combines exposure to climate extremes and change with the current sensitivity to those climate stressors and the capacity of the country to adapt to the impacts of climate change.
Climate Group Initiatives (RE100, EV100, EP100)	Collection of initiatives specified by the Climate Group designed to achieve the goal to make the world Net Zero Carbon emissions by 2050. These initiatives focus on Renewable Energy (RE), Electric Vehicles (EV) and Energy Productivity (EP).
Climate Positive	Term used by NatWest Group to describe a state where more greenhouse gas emissions are offset than are produced by NatWest Groups own operations. Offsets are done through the use of sequestration (e.g. tree planting) carbon credits.
Climate-related risks	Refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g. cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g. sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.
Climate-related opportunities	Refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.
COP 26	The COP26 refers to 26th UN Climate Change Conference of the Parties. The summit will bring parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. The UK will host COP 26 in Glasgow during November 2021. NatWest Group is principal banking partner for COP 26.
Energy Performance Certificate (EPC)	A report that assesses the energy efficiency of a property and recommends specific ways in which the efficiency of a property could be improved. Certification is graded from A (most efficient) to G (least efficient).
Enterprise Wide Risk Management Framework (EWRMF)	The Enterprise Wide Risk Management Framework provides a consistent approach to risk management across NatWest Group. It allows the Group to manage risk that is aligned to the Group's strategy and purpose.
Environmental, Social and Ethical (ESE) Risk Framework	Framework that allows NatWest Group to assess and manage the ESE risks facing existing or potential customers to ensure NatWest Group supports customers who are within the Groups defined risk appetite.
Environmental, Social and Governance (ESG)	Refers to three central areas of sustainability performance (risk and return) we consider and report on. ESG or sustainability factors can impact our business as well as our stakeholders, the environment or wider society.
Financed Emissions	Greenhouse gas emissions that occur as a result of financing, including lending and investment activity. These activities fall within Scope 3, category 15 of the GHG protocol. NatWest Group use financed emissions as a key metric to estimate the climate impact of our financing activity on the real economy. Financing activity refers to the loans and investments (debt securities and equity shares) on NatWest Group's balance sheet.
Full-Time Employee (FTE) equivalent	The number of full-time employees and equivalents within the organisation calculated on a standard working week.

Glossary and Abbreviations	
Item	Description
Greenhouse Gas (GHG) Emissions	GHGs are atmospheric gases that absorb and emit radiation within the thermal infrared range and that contribute to the greenhouse effect and global climate change. Many different GHGs are produced as a result of human activities. The seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (UNFCCC)—carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF), and nitrogen trifluoride (NF3).
Greenhouse Gas Protocol	Comprehensive global standardised frameworks to measure and manage GHG emissions from private and public sector operations, value chains, and mitigation actions. The GHG Protocol supplies the world's most widely used GHG accounting standards.
Heightened climate-related risk sectors	The NatWest Group lending sectors which have currently been identified as potentially most exposed to climate-related physical and transition risks.
Heightened climate-related risk sector exposure	Gross loans and advances to customers measured at Amortised Cost (AC) and Fair Value Though Other Comprehensive Income (FVOCI), and related off-balance sheet exposure, as pertains to heightened climate-related risk sectors. This exposure metric excludes debt securities, equity shares and any trading book instruments.
Net Zero Carbon	Term used by NatWest Group to describe a state where no incremental greenhouse gases are added to the atmosphere, with remaining emissions output being balanced by the removal of carbon from the atmosphere.
Paris Agreement	The 2015 Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees celsius, compared to pre-industrial levels. NatWest Group intends to do what is necessary to achieve alignment with the 2015 Paris Agreement. This is referred to as Paris alignment.
Partnership for Carbon Accounting Financials (PCAF)	Global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas emissions associated with their loans and investments.
Prudential Regulatory Authority (PRA)	The Bank of England prudentially regulates and supervises financial services firms through the Prudential Regulation Authority.
Risk and Control Assessment (RCA)	Risk and Control Assessment is used to identify and measure operational and conduct risks faced by the bank in order to facilitate the effective management of risks within risk appetite.
Scope 1,2 and 3 Emissions	Scope 1 covers direct GHG emissions from owned or controlled sources. Scope 2 covers indirect GHG emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other indirect GHG emissions that occur in the value chain.
Streamlined Energy and Carbon Reporting (SECR)	Reporting of emissions sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.
The CDP (formally Carbon Disclosure Project)	Not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
Thermal and Lignite Coal	Coal that is almost exclusively used as a fuel for steam-electric power generation.
Transaction Acceptance Standards (TAS)	Sectorial lending standards that set out both mandatory metrics that must be adhered to, as well as additional structuring guidance.
United Nations Environment Programme Finance Initiative (UNEP FI)	The UN Environment Programme Finance Initiative (UNEPFI) is a partnership between the UN Environment Programme and the global financial sector. Its mission is to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. NatWest Group is a signatory to the UNEPFI Statement (1997).
Value Chain	Refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling.

NatWest Group plc

Climate-related disclosures report 2020

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