NatWest Group

Climate Matters

THINKING LONG TERM. ACTING NOW

October 2022

One year on from COP26

6 reasons for greater home energy efficiency

The case for carbon credits

Nature-positive food systems

Asset management: targeting more than emissions

Foreword

from COP26 President, The Rt Hon Alok Sharma MP

The historic Glasgow Climate Pact, forged amongst nearly 200 countries at COP26, allowed us to say that we had kept alive the possibility of limiting the average rise in global temperature to 1.5ºC above pre-industrial levels. But we will only achieve that outcome if we deliver the Pact, and all the promises we made in Glasgow, in full. Doing so will require us to turn the billions already flowing in climate finance, into trillions.

I am pleased, therefore, that the Glasgow Financial Alliance for Net Zero (GFANZ), including NatWest Group as co-founders, aims to put the weight of their assets to work to support the global transition to net zero. Since GFANZ's launch in April 2021, more than 500 member firms from across the global financial sector have now signed up, representing more than US$130 trillion in assets under management and advice.[1]

Of course, the world has changed markedly since April 2021, and since COP26. We are facing multiple crises both at home and abroad, much precipitated by the invasion of Ukraine. But the evidence is unequivocal: the chronic threat posed by global warming is getting worse.

As we look ahead to COP27, the importance of climate finance and public-private partnerships for the global transition to net zero has never been more important. Banks like NatWest Group can play a central role in financing the transition – whether that is lending to a small business for new electric vehicles or to farmers to use renewable energy on their land.

I welcome the personal leadership of Alison Rose, who has put climate at the centre of NatWest Group's strategic purpose. NatWest Group's aim to provide £100 billion climate and sustainability funding and financing by the end of 2025, to support projects of all sizes, from green mortgages to the world's largest windfarm, is a hugely positive step. I look forward to continuing to work with NatWest Group for the remainder of the UK's COP Presidency, and at COP27.

[1] Source: https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/

Climate Matters

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Building on the momentum of COP26

Alison Rose

NatWest Group Chief Executive Officer

Good for the planet, good for business

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

Our 'Springboard to Sustainable Recovery' report clearly highlights this. The report shows that small and medium-sized enterprises (SMEs) can deliver a significant amount of the UK's abatement targets, if they get the right support. And this, we believe, is a huge opportunity for businesses.

This was one of the key messages we wanted to highlight as a principal partner for COP26. Since then, it has been crucial that we build on that sentiment and the successes of the conference, strengthening our ambition towards achieving net zero through championing climate solutions, building powerful partnerships, supporting our customers, and reducing the impact of our own operations.

Financing the transition

The actions that NatWest Group takes on climate change matter, because every stage of the transition needs to be financed. We are helping our customers to achieve their climate and sustainability ambitions: whether it is by supporting our UK mortgage customers to increase the energy efficiency of their homes, or by delivering the finance to enable green business solutions. With the current pressure on energy supplies and the rising cost of living, these practical solutions are increasingly important and make the long-term case for investment more powerful.

Energy efficiency is one of the best ways of defending against high energy prices, and if implemented in an affordable way, will benefit a significant amount of people. We also know that there is strong demand from consumers, with our Greener Homes Attitude Tracker showing that around 63% of the public want to make their homes more energy efficient.[1]

A clear opportunity

The opportunity that the transition presents to businesses is clear. With the right support, the UK's SMEs could create up to 130,000 new jobs, produce around 30,000 new businesses and deliver an estimated £160 billion revenue opportunity for the UK economy through the transition.[2]

By helping more families and businesses to make moves like these now, NatWest Group can accelerate the shift to a greener economy. This is an opportunity for our customers and NatWest Group, because tackling climate change is not only a priority for the people, businesses and communities we serve, but also makes sound business sense.

1 Source: NatWest Group, Greener Homes Attitude Tracker, July 2022.
2 Source: NatWest Group. 'A springboard to sustainable recovery - Unlocking the net-zero opportunity for UK SMEs', October 2021

We have made significant progress in turning our climate ambition into action since setting out our climate strategy in 2020. As a founding member of the Net Zero Banking Alliance (NZBA) and the Glasgow Financial Alliance for Net Zero (GFANZ), and as a principal partner of COP26, in 2021 NatWest Group established itself as one of the leading voices for finance on tackling climate change.

As our customers face the growing cost-of-living crisis, we continue to put them first, helping them with the practical tools, support and financing they need to navigate the transition. As we do this, we aim to maintain our leadership position at COP27 and on the next big climate discussions: biodiversity and the circular economy – both crucial factors in keeping global warming to within 1.5°C.

We recognise that we still must do more – individually as a business, and in partnership with others – to contribute to achieving the ambitions of the Paris Agreement and addressing biodiversity/environmental-related matters. We remain focused on the task ahead, aware of both our responsibility and the opportunity of being part of the climate solution.

Alison Rose
NatWest Group Chief Executive Officer

Our progress at a glance

- Giving shareholders their Say on Climate.
- Climate education made available to over 16,000 colleagues.[1]
- More than £20 billion climate and sustainable funding and financing provided so far.[1] An ambition of £100 billion climate and sustainable funding and financing was announced for and between 1 July 2021 and the end of 2025.
- Launched the Green Homes Retrofit Pilot.
- Launched our EPC rating tool in our digital mortgage hub.
- Completed £1.4 billion of Green Mortgages in Retail Banking so far, since their launch in Q4 2020.[1]
- Launched a new Green Loans proposition to help UK businesses.
- Introduced our Carbon Planner tool.
- Launched the pilot of a carbon-tracking app targeted at Business Banking customers.
- Opened our new Clean Transport Accelerator.
- Published the first NatWest Sustainable Business Tracker.

[1] Source: H1 2022 NatWest Group Results; https://investors.natwestgroup.com/~/media/Files/R/RBS-IR-V2/results-center/29072022/natwest-group-h1-results-2022.pdf As at the end of H1 2022.

In Conversation

James Close, NatWest Group's Head of Climate

James Close, NatWest Group's Head of Climate talks about the crucial role of finance in the transition to net zero.

Q: Why is finance such a key enabler in the drive towards net zero?

It's estimated that US$50 trillion in incremental investments[1] is needed to transition the global economy to reach net-zero emissions by 2050, so enabling this ambition requires a huge and rapid reallocation of capital. Crucially, this means the mobilisation of both private and public finance is going to be necessary to fund the infrastructure of future green economies.

Of course, this is not something any individual organisation can do on its own. Collective action is required from the financial industry on a global scale, and thankfully, the Glasgow Financial Alliance for Net Zero (GFANZ) – which was launched in April 2021 with NatWest Group as a founding member – currently includes more than 500 firms from across the global financial sector, and now represents more than US$130 trillion in assets under management and advice.[2] This kind of collaborative initiative is vital to amplify the billions of government-led funding into trillions of total climate investment.

But, meeting the investment gap is just one part of the challenge. Financial firms also have a vital role to play in developing new and diverse forms of green finance expertise, guiding on requirements of decision-useful climate data and ensuring that the delivery of net-zero financing is carried out in a fair, transparent and sustainable way, protecting the most impacted and vulnerable communities.

Q: What are the opportunities you see in the transition to a net-zero economy?

As I look at the steps required to reach net zero by 2050, including ambitious interim targets such as ours to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement, it's clear how rapidly certain sectors will need to change. As well as presenting risks, I also believe the transition towards greener economies will create significant opportunities.

For instance, I believe there is considerable scope for the UK agricultural sector to become much less carbon intensive. Adopting more sustainable, nature-positive farming solutions has the potential to not only produce better foods and improve biodiversity, but also to combat soaring input costs for farmers and create greater supply chain resilience for retailers and customers. Likewise, the need for improved energy efficiency in the UK's housing stock will enable commercial opportunities through the retrofitting of existing heating solutions and the provision of clean energy. Indeed, offshore wind, hydrogen and carbon capture and storage are likely to play a huge role in boosting many regional economies across the UK as well as benefiting customers and improving our national energy security.

Importantly though, I believe the opportunities in delivering on net zero exist across the whole business spectrum. As our 'Springboard to Sustainable

1 Source: Morgan Stanley. https://www.morganstanley.com/ideas/investing-in-decarbonization
2 Source: https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/

Recovery' report highlights, SMEs can deliver a significant amount of the UK's abatement targets, if they get the right support. And I believe this can have huge benefits, driving business value by reducing a business's own emissions, and unlocking growth through wider climate action.

Q: What are NatWest Group's actions to reduce climate impact?

Our ambition to tackle climate change means we've already reduced our direct own operations footprint by 46%, and plan to achieve a 50% reductionby 2025, against a 2019 baseline. Elsewhere, we have set stretching targets for our wider operational value chain and have an ambition to at least halve the climate impact of our financing activity by 2030. In terms of leadership accountability, climate considerations have been included in senior executive remuneration since 2020. During 2021, we added performance against climate targets as part of the bonus pool assessment for our wider workforce, recognising its central role in our strategy.

In December 2021, the NatWest Group Board approved the adoption of climate risk appetite measures into the Enterprise-wide Risk Management Framework, for integration in business-as-usual risk management in 2022. Meanwhile, our Climate Opportunities Group (COG) has been established to support our ambition to be a leading bank in the UK helping to address the climate challenge. The COG brings together colleagues from all business segments to conceptualise and develop opportunities that complement the NatWest Group climate ambition.

With climate a key focus area of our purpose, we are providing easily accessible climate awareness content for colleagues, including launching a new Climate Change Awareness module in partnership with the University of Edinburgh. So far, this has been made available to over 16,000 colleagues, helping them to understand the impacts of climate change and the positive actions they can take.

Q: What next?

Much of our climate-related activities thus far have been focused on the actions required to directly reduce emissions associated with fossil fuel use: decarbonising transport, heat and electricity generation to accelerate the transition to net zero.

But collectively I believe we also need to think more broadly about wider consumption emissions and the scarce resources associated with the production of materials. In this sense, consideration of the circular economy may become much more relevant – what it takes to help move from our current extractive 'take-make-waste' linear model of economic growth, to one that is based on more circular practices: reusing, repairing and repurposing.

The shift towards the circular economy will help to tackle climate change at its root cause, reducing the need to deplete natural resources and cutting the energy demand required in new production. Importantly, this is not only good for the planet, but has a clear commercial logic, with the shift to a more circular model reshaping businesses and industries towards sustainable long-term value creation.

"The opportunities in delivering on net zero exist across the whole business spectrum"

Q: On a personal level, what drives your passion for being part of the climate solution?

I heard Al Gore speak in Sheffield in 2009, delivering an incredibly powerful message that resonated deeply with me. The effect of that evening personally was that I've subsequently devoted my career to being part of the climate solution, building up my knowledge advising the UK Government and the Mayor of London, before working at the World Bank.

It was in this latter role that I gained a much fuller appreciation of how climate change is impacting the poorest and the most vulnerable, who have ironically done the least to contribute to the problem. I also saw the power that finance could have to enable dramatic and large-scale positive change. It's why I'm now delighted to be working for NatWest Group – whose ambition is to be a leading bank in the UK helping to address the climate challenge.

Home is where the heat is

6 reasons for improving our home energy efficiency

Residential properties contribute almost a sixth of the UK's greenhouse gas emissions[1]. With the country's housing stock among the oldest in Europe, retrofitting our buildings to improve energy efficiency means significant gains can be made, bringing a whole range benefits.

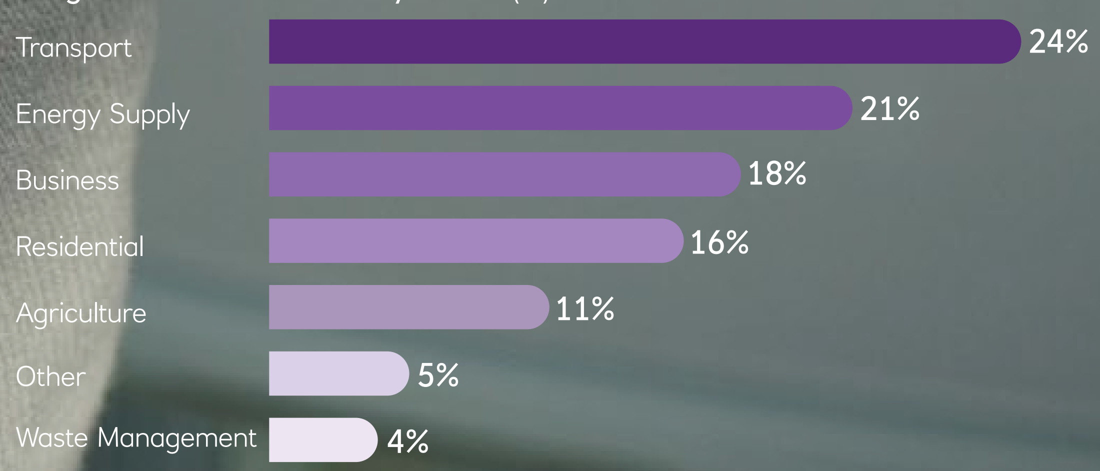
1 Warmer homes save lives

Across the UK, it's estimated that an average of 10,000 excess winter deaths are attributable each year to cold and insufficiently heated homes.[2] Warmer homes are not only more comfortable, but they are also vital for our health and wellbeing, especially for vulnerable groups such as the elderly and those living with chronic illnesses.

2 Reducing emissions

Research shows that almost 16% of net UK greenhouse gas emissions are estimated to come from the residential housing sector.[1] As such, making the incremental changes to decrease our domestic energy demand – including measures such as improved insulation, new heating systems, solar panels and draft-proofing – can have a big impact on carbon use. Indeed, the independent non-departmental public body, the Committee on Climate Change recently identified the retrofitting of the UK's 29 million existing homes to low-carbon and low-energy as a key priority.[3]

UK greenhouse emissions by sector (%)[1]



1 Source: Department for Business, Energy & Industrial Strategy. 2020 UK Greenhouse Gas Emissions.
2 Source: NEA, https://www.nea.org.uk/who-we-are/policy-and-research/our-health-our-homes
3 Source: Committee on Climate Change, 'UK housing: Fit for the future?', 2019.

3 Saving money

Energy efficiency is one of the best ways of defending against high energy prices, and if implemented in an affordable way, will benefit a significant amount of people. We also know that there is strong demand from consumers, with our Greener Homes Attitude Tracker showing that around 63% of the public want to make their homes more energy efficient.[1]

4 Helping to future proof properties

Improving energy efficiency also makes sense for households longer term. With increasingly stringent building standards, such as the Future Homes Standard, coming into place, retrofitting can help future proof against energy compliance requirements. It also enables homeowners to access preferential lending terms through products such as green mortgages. Invariably, this makes energy efficient houses more attractive than less sustainable homes.

5 Increased skills and jobs

Home energy efficiency will be a vital part of delivering our national net-zero ambitions and this, we believe, opens huge opportunities for businesses. Our 'Springboard to Sustainable Recovery' report, published in 2021, shows that SMEs can deliver a significant amount of the UK's abatement targets. From the installing of heat pumps to the fitting of solar panels, a substantial raft of new jobs can be created from the delivery of energy efficiency.

6 National energy security

Our national exposure to international energy prices has become starkly apparent in recent years, with geopolitical factors and global market volatility contributing to soaring energy costs. Decreasing our energy demand by improving the energy efficiency of our homes and buildings presents a logical, fast and impactful solution to managing energy bills, as well as helping to improve national energy security.

1 Source: NatWest Group, Greener Homes Attitude Tracker, July 2022. (based on responses from 4,500 people across the UK in the fourth quarter of 2021).

How NatWest Group is accelerating the transition to more energy efficient homes

Sustainable Homes and Buildings Coalition. In July 2021 we announced the launch of our Sustainable Homes and Buildings Coalition in collaboration with British Gas, Worcester Bosch and Shelter to explore solutions to make UK housing more energy efficient, influence change on an industry level and lobby the Government on the policy changes required. Building on this, the coalition launched our 'Home is where the heat is' report in October 2021, which explores the UK housing market carbon issue, as well as potential solutions and opportunities.

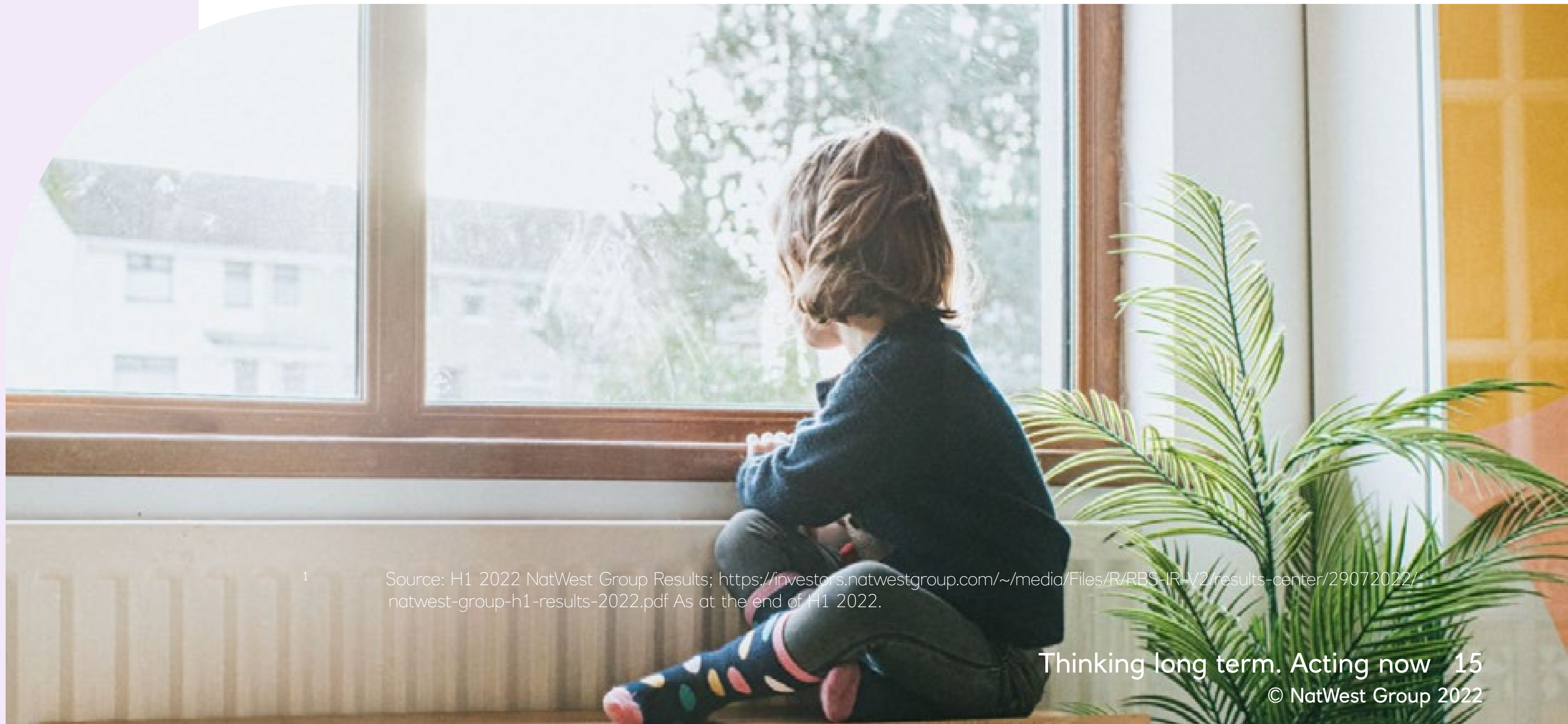
Green Mortgages. Our residential and buy-to-let Green Mortgage products offer a lower interest rate for customers purchasing, porting or re-mortgaging a property with an EPC rating of A or B, rewarding them for choosing an energy efficient home. In Retail Banking, we have completed £1.4 billion of green mortgages since they were launched in Q4 2020, including £661 million in H1 2022.[1]

Green retrofit pilot. With our Sustainable Homes and Building Coalition partners, we launched the Green Homes Retrofit Pilot. The pilot involves retrofitting the properties of 10 customers to improve their energy efficiency and will provide valuable information for other customers wanting to make their homes more climate friendly.

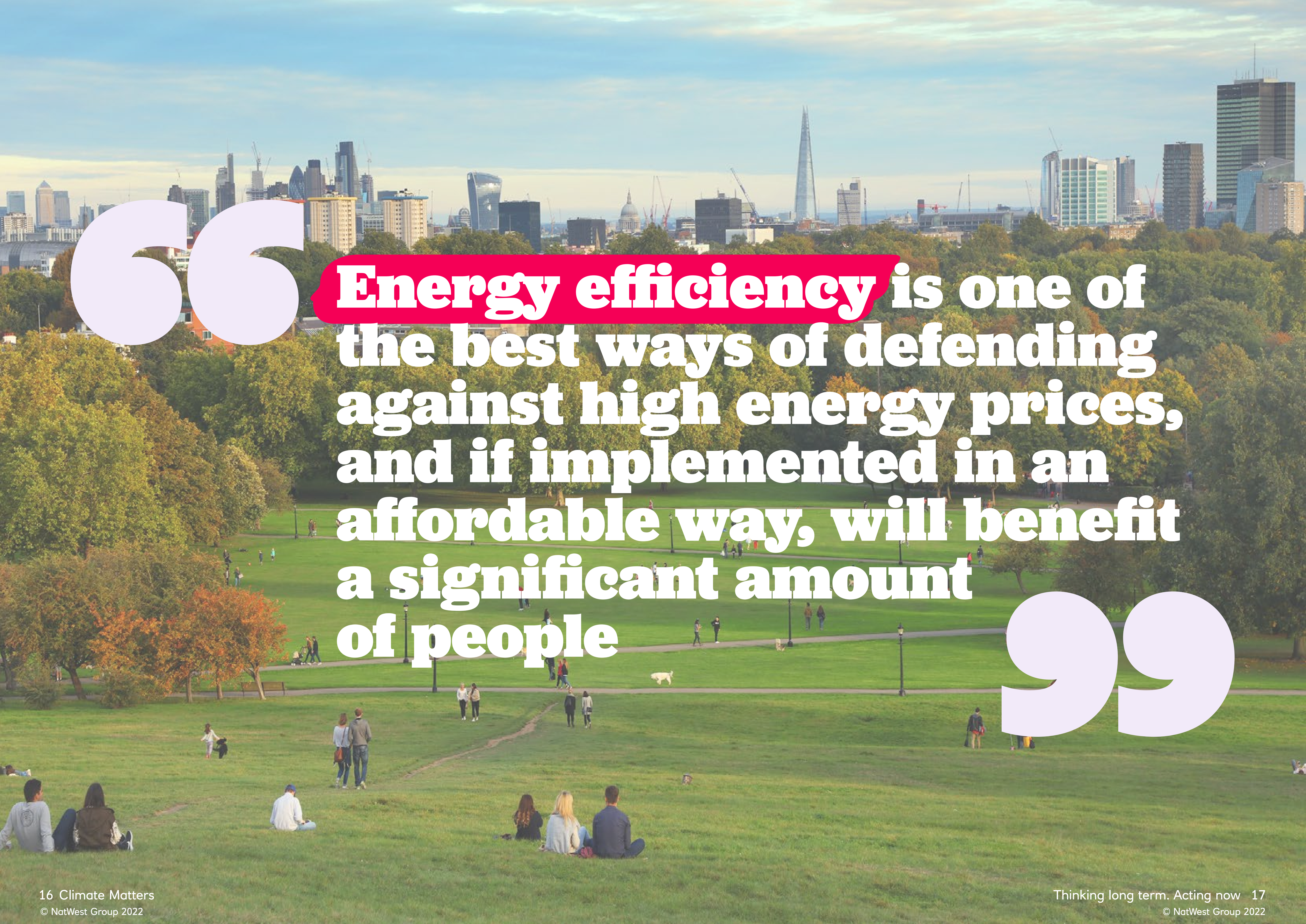
Green Homes Attitude Tracker. In September 2021 we launched our Green Homes Attitude Tracker, a quarterly survey supported by HIS Markit to track consumer awareness and engagement in the net-zero challenge. The survey helped us gain a deeper understanding of homebuyers' views on environmental features and energy-saving improvements in their homes.

EPC ratings. Our EPC rating tool in our digital mortgage hub shows customers up-to-date information on the EPC rating of their property, helping them to become more aware of their domestic energy efficiency and take action to improve it.

NATWEST GREEN MORTGAGES ARE AVAILABLE TO OVER 18s PURCHASING OR REMORTGAGING A HOME WITH A VALID ENERGY PERFORMANCE CERTIFICATE (EPC) RATING OF A OR B. PRODUCT FEES MAY APPLY. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.



1 Source: H1 2022 NatWest Group Results; https://investors.natwestgroup.com/~/media/Files/R/RBS-IR-V2/results-center/29072022/natwest-group-h1-results-2022.pdf As at the end of H1 2022.



> **"Energy efficiency is one of the best ways of defending against high energy prices, and if implemented in an affordable way, will benefit a significant amount of people"**

The case for carbon credits

Why well-functioning carbon markets are vital in the transition to net zero

By Caroline Haas, Head of Climate and ESG Capital Markets

Facing up to the challenges

It's fair to say that carbon credits have had a somewhat troubled growth story so far. Heralded by many as a viable market-based tool in the fight against climate change – effectively putting a value on the carbon that is used as part of business operations – there have been numerous challenges to their efficacy.

One of the most pertinent issues has been carbon credits' perception as an alternative for effective action: the belief that they can be used as a get-out-of-jail-free card for corporates or institutions unwilling to implement actual systematic reforms towards net zero.

Until recently, the nascent characteristics of the markets and a lack of rigorous standards have also invited mismanagement and abuse. A lack of robust regulation compared with other established markets has in some cases undermined the integrity of implementation, with poor-quality carbon offsetting projects simply failing to deliver meaningful avoidance or removal of carbon.

And while quantifying emissions is relatively straight forward, the pricing of carbon credits remains somewhat opaque, mostly because of the wide variety of credits in the market and the number of factors influencing the price.

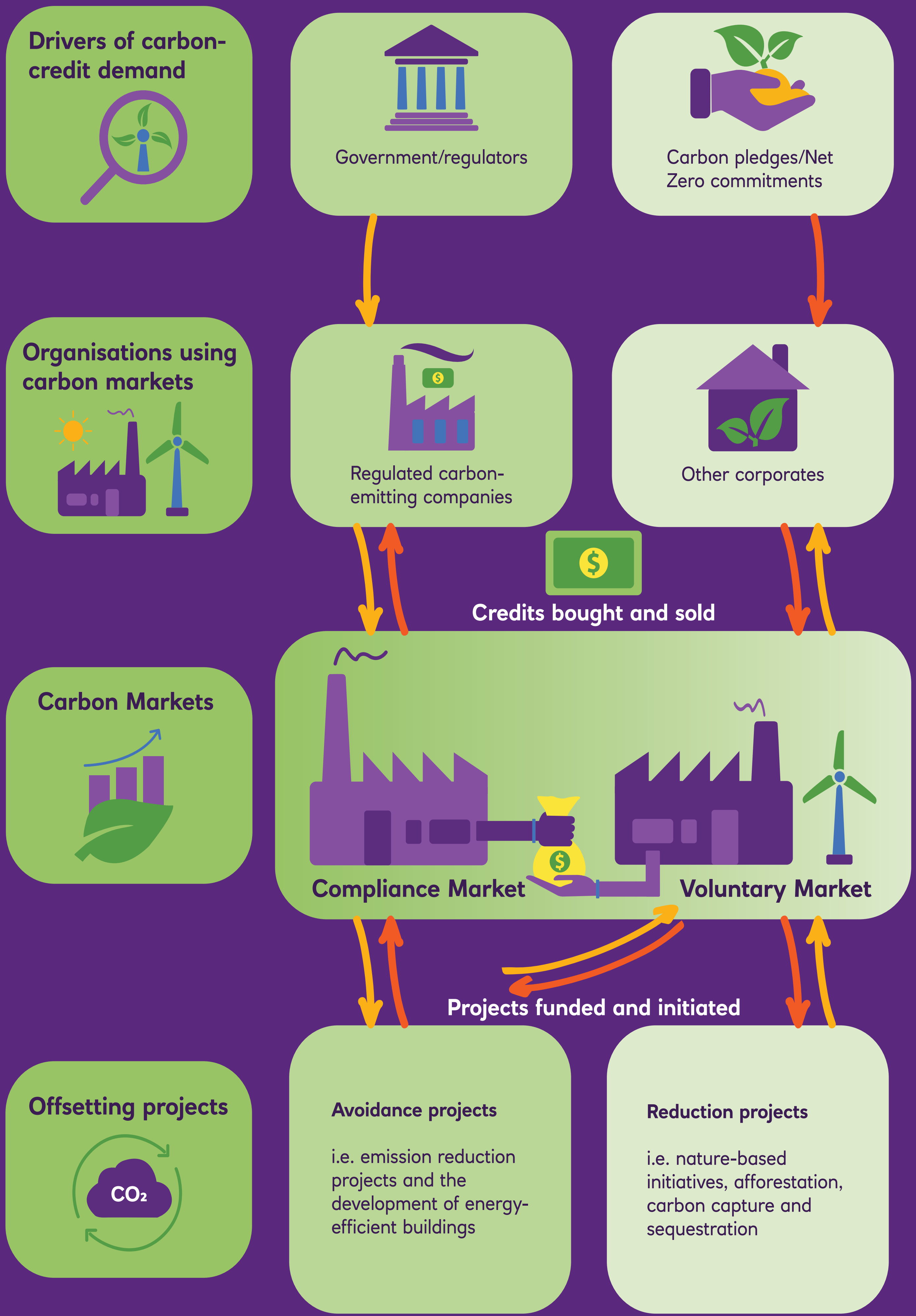
A vital part of the climate solution

However, with the momentum for government net-zero targets and institutional net zero carbon pledges growing, carbon markets can play an ever-more vital role in the mobilisation of both private and public finance towards carbon neutralisation and reduction projects.

In this sense, with the growing acknowledgement that simply abating emissions is not enough to reach Paris Agreement targets, the voluntary carbon market will become particularly important.

Projects to capture or sequester carbon from the atmosphere are urgently required. As such, voluntary carbon markets have the potential to be an increasingly effective mechanism in channelling the required investment to make this happen – a sentiment reflected in the rising demand and price of carbon credits in recent years.

In addition, much of the climate action will need to take place in the developing world, where there is also the generation of carbon credits. The monetisation of these carbon credits, as reviewed at COP26 under Article 6 of the Paris Agreement, could reduce the cost of the underlying infrastructure to mitigate climate change.



> “It's imperative to take into consideration social implications and reduce the broader socioeconomic impact of **climate change**”

Progress still needed

But to realise this potential, there's still important progress to be made in the way carbon is traded. Limited liquidity, insufficient market size, a non-standard transaction process, and a lack of rational or explainable price mechanisms are all issues that need to be improved for carbon markets to work more efficiently.

There's also a growing school of thought that believes we need to incorporate the social cost of carbon into balance sheets. That is, the money generated from the sale of carbon credits must also largely benefit local communities in their place of origination. These projects often span 30 to 40 years and carry nature-based and political risks, but the benefits can clearly outweigh those risks, and the higher the critical mass built in supporting these projects, the less risky they potentially become.

It is particularly important to note that climate change has its greatest impact in developing countries or lower-economic communities. Therefore, it's imperative to take into consideration the social implications and reduce the broader socioeconomic impact of climate change.

Carbonplace: the benefits of a well-functioning market

As with any market, price and data transparency can go a long way towards influencing what companies will pay for credits. In the long run, greater transparency usually translates into lower prices. Trading platforms that increase the frequency of carbon credit transactions, broaden the types of organisations participating in carbon markets, improve investment integrity and enhance market transparency will bring much needed liquidity, trust, and price stability.

For these reasons, NatWest Group became a founding member of Carbonplace, an innovative settlement platform which aims to facilitate increased delivery of high-quality, equitable carbon credit projects. In doing so, Carbonplace aims to foster a strong global ecosystem for the voluntary carbon market and assists in the development of tools – leveraging banking relationships that have undergone onboarding governance and using market-accepted carbon credit verifiers – to help clients manage climate risk.

I believe that the importance of this kind of well-functioning carbon market in the overall climate solution cannot be understated. Enabling more high-quality credits to be bought and sold with greater ease and transparency could accelerate the flow of private sector capital to near and medium-term climate mitigation, as well as helping to ensure that the social cost of carbon is properly accounted for – vital steps if we are to equitably achieve net-zero greenhouse-gas emissions.

What are carbon credits?

A carbon credit represents the verified removal, or avoidance/reduction of one tonne of carbon dioxide from the atmosphere. Carbon credits broadly fall into one of two categories: removal credits and avoidance/reduction credits.

Removal credits are those that result from projects that directly remove carbon from the atmosphere. At present, removal credits are usually issued from nature-based projects like afforestation or rewilding, but more credits are expected to be issued from technology-based projects such as human-made carbon capture and sequestration, especially once the technology becomes scalable.

Avoidance/reduction credits are those that result from projects that avoid carbon from being released into the atmosphere, compared to what would have been the case without the project. These include off-grid renewable energy projects, projects to prevent deforestation, farming emission reduction projects and the development of energy-efficient buildings.

Financing nature-positive transition in the agriculture sector

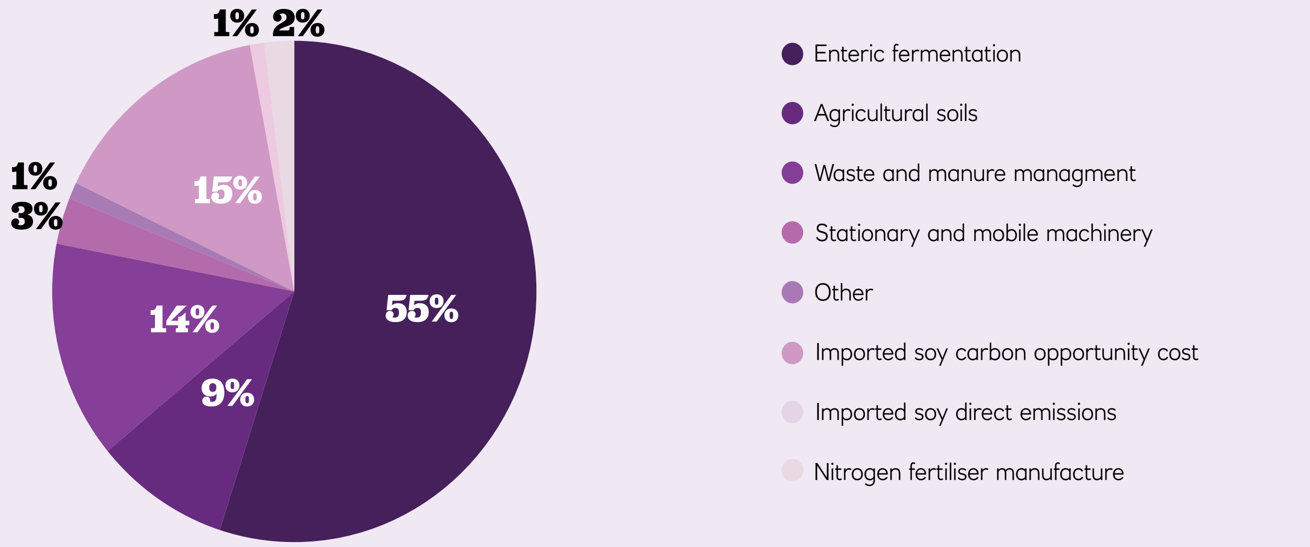
How private finance can profitably support net-zero, regenerative agriculture

By Maria Carvalho, Head of Climate Economics and Data

Time for change

The UK's food system is under increasing pressure. The twin crises of climate change and biodiversity loss, alongside the economic pressures of rising input prices mean longer-term, more sustainable solutions are needed for farmers, consumers and the planet. However, while farmers and landowners often recognise the long-term benefits of working in a greener way, they may not be able to make the sometimes significant, near-term infrastructure investments needed for sustainable transition plans. For example, energy efficient mobile and stationary capital equipment, and renewable energy systems, such as solar or anaerobic biodigesters for biogas production, all come at a substantial and potentially prohibitive initial outlay for farmers.

Figure 1: Sources of UK agricultural emissions, including Scope 3 at GWP20 (2018).Total = 132.3 MtCO2e



Source: WWF – Land of Plenty, February 2022: CCC's Sixth Carbon Budget and Report for WWF by Eunomia/Innovation for Agriculture (IfA)

Bridging the investment gap

As such, I believe the financial sector can, and should, play a crucial role in helping to develop a more sustainable UK food system.

- By actively scaling the information and access to green finance specifically tailored to farmers and food producers, private finance can bridge the investment gap between the costs of implementing regenerative farming practices and the commercial benefits these will eventually bring.

- The financial sector can also be part of validating the transition to more nature-positive farming, bringing a creditworthiness perspective to these efforts. By recognising that emission reduction efforts by farmers will make their businesses more attractive to their retail customers as well as helping to reduce risk, banks can subsequently reflect this in the cost of their lending.

- Banks can be positively involved at other parts of the supply chain by partnering with food retailers to provide transition finance to their farmers to reduce emissions in a way that is comprehensive and scalable. This can be mutually beneficial for the farmer and the buyer. For example, by using accurate measurements for on-farm reduction and sequestration schemes, food businesses can verifiably reduce their own scope 3 (supply-chain) emissions through their direct financial support to farmers.

> "The financial sector can play a crucial role in helping to develop a more sustainable UK food system"

- More broadly, financing is also needed to provide innovative solutions in managing farms and the industrial food system. For instance, satellite data can support farmers in sustainably managing their farms within a broader ecological system, while also preparing for extreme weather shocks and adapting to long-term weather effects.

- There is increasing interest in how digital solutions can make the entire food system more efficient through data analytics, balancing supply and demand to reduce the amount of food that is wasted. Blockchain solutions can also enable traceability and transparency on the carbon footprint and sustainable outcomes achieved through the farming and processing of food – an issue increasingly important to food retailers and consumers.

Providing practical solutions for farmers

As one of the largest bankers to the UK's farming sector and a dedicated partner to UK food retailers, NatWest Group could potentially have a key role to support farmers in the transition to net-zero regenerative food systems. With agriculture representing 1.2% of NatWest Group's gross lending[1] but the largest sectoral contributor to the bank's total financed emissions, our ambition to help our farming customers reduce their collective carbon footprint is also a vital part of our own ambition to at least halve our financed emissions by 2030.

1 Source: NatWest Group plc, 2021 Climate-related Disclosures Report

Relief measures:

A key tenet of our proposition is to provide practical solutions for many of the challenges that food producers face. For example, NatWest Group has offered a package of relief measures for existing farming customers to help with rocketing fuel, feed and fertiliser costs. This includes capital loan repayment holidays, overdraft extensions and loans to help farmers pay for resources that have spiked in price.

Green loans:

Our green loans are available with no arrangement fees to provide more affordable lending for sustainably focused capital investments including renewables, emissions reduction and methane capture and utilisation.[1]

Direct partner support:

We also offer direct support for agricultural customers via access to our national partner network of industry bodies, foundations, valuers, land agents and technical experts.

The Global Farm Metric:

We want to help farmers to measure their sustainability impacts. This information is useful for their customers as well as providing data to improve farm operations. NatWest Group and the Sustainable Food Trust have been collaborating to support the development of the 'Global Farm Metric' (GFM), a standardised framework to help farmers measure the sustainability of farming and food production.

After a test pilot in 2021, this is now being expanded to create a digital solution that will help farmers measure, plan and track the impact of their interventions to improve the sustainability of their farms. Bringing expert insight from the financial sector, NatWest Group is helping to further develop the GFM as a single platform through which farmers in the UK and beyond can meet multiple sustainability data requests such as audits or requests from retailers, banks or governments.

Carbon Credits:

Finally, we're aware that the UK's landmass and agricultural sector can be a valuable means of capturing carbon – and it doesn't need to be at the expense of food production. Our Carbonplace platform for trading carbon credits aims to be a powerful enabler of the market for high-quality carbon credits. We want to make this available for UK farmers if they wish to create an additional source of income using a platform that is easy to interact with and also fully transparent. In this way, we aim to help accelerate the flow of private-sector capital to complement public finance towards turning habitats from carbon sources to carbon sinks.

1 Green Loans with no arrangement fee are open to applications from eligible UK businesses with an annual turnover of less than £25m (other than for eligible UK Real Estate Finance businesses for whom alternative eligibility criteria may apply) who are seeking to take out a loan to acquire assets that fall within the eligible list developed by the bank and subject to review and change on an ongoing basis. Security may be required. Fees (other than arrange ment fees) may apply. Over 18s only. Subject to status, eligibility and approval. Business use only. Any property or asset used as security may be repos sessed or forfeited if you do not keep up repayments on any debt secured on it. Failure to comply with the terms of the loan agreement could lead to an event of default under the loan and (depending on their terms) may also impact other facilities of the borrower. Terms apply.

Why asset managers need to look beyond decarbonisation

The importance of targeting more than just emissions

By Leslie Gent, Head of Responsible Investing at Coutts

> **Portfolio alignment is vital for identifying and achieving emissions reductions in the real economy**

A huge number of asset managers have made public commitments to aligning their assets under management (AUM) with a net-zero economy. Over 270 investors are now signatories to the Net Zero Asset Managers initiative[1] and over a third of global market capitalisation is covered by Science Based Targets initiative (SBTi) pledges[2].

However, the credibility of these promises very much depends on how these intentions are translated into tangible actions. That is, how asset managers measure where they are at currently, and how they set out the pathways to their goals.

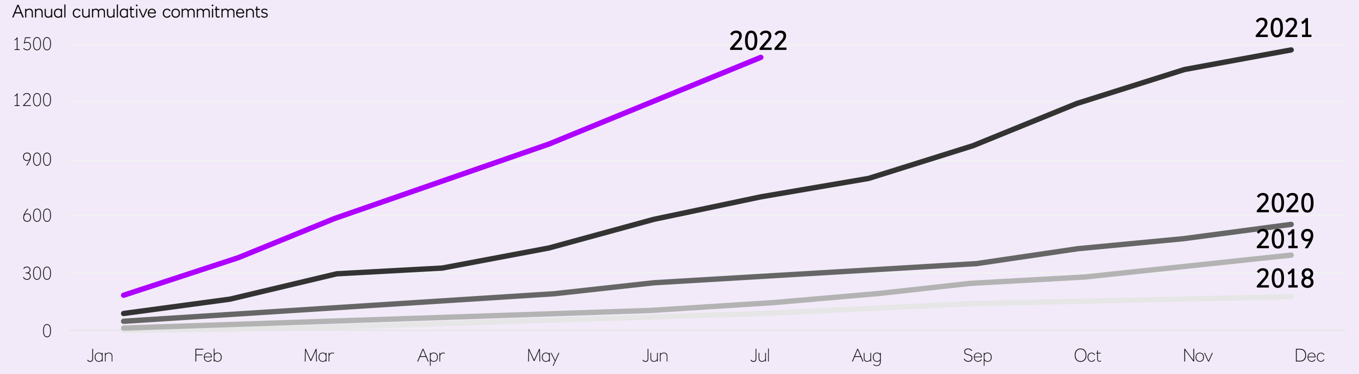
A complex problem

Limiting the rate of global warming, requires a deep and immediate reduction in greenhouse gas emissions. Accordingly, the defining metric for guiding net-zero transition in managed assets has (to date) predominately been based on quantifying and reducing a portfolio's overall carbon emissions – that is, estimating the overall carbon footprint generated by a portfolio's underlying assets and using this data to decrease the carbon emissions of AUM over time.

Climate change, though, is an inherently complex problem which can't be measured by a single metric. As such, I believe decarbonisation alone is too simplistic a measure to properly guide investment and allocation decisions over the long term. What's more, if we are to accelerate our climate ambitions, we need to recognise that carbon emissions are at best a blunt tool for portfolio management which, if used incorrectly, can even slow progress towards net zero.

1 Source: https://www.netzeroassetmanagers.org/signatories/
2 Source: https://sciencebasedtargets.org/reports/sbti-progress-report-2021

Growth in corporate commitments to science-based targets



Source: BloombergNEF, SBTi

Never the whole story

Emissions data inevitably never tells the whole story. By its nature, it is backward looking and is therefore only evidence of what has already happened, rather than of future outcomes. For example, the data cannot recognise the operational or structural transformations which may shift companies from being lower emitters to higher emitters, simply because that information has yet to be recorded.

Likewise, solely referencing carbon emissions can also introduce unintended bias, potentially prompting a concentration of investment (and risk) in historically lower-emitting sectors and industries. This also fails to acknowledge that different sectors will reduce emissions at different speeds and can effectively limit necessary portfolio diversification and returns.

The data also misses genuine efforts made by companies towards reaching net-zero targets and can give a false impression of future climate impact. For instance, take a business which has made significant progress in reducing emissions against its own baseline, but is still higher than the global average. Using a purely emissions-based approach, that business will appear comparatively worse than a company which has lower-than-average emissions but which is increasing its carbon output. Importantly, these factors can result in a crucial misallocation of capital from a climate perspective – inadvertently rewarding emitters rather than incentivising positive transition momentum.

The importance of portfolio alignment

Because of this, in my view an approach to portfolio climate measurement beyond a one-dimensional view of decarbonisation is crucial. We therefore combine both decarbonisation and portfolio alignment targets to help us track progress on different levels of our investment process, with both needing to move in the same direction to achieve real results.

By recognising climate progress already made and forward-looking targets set by the asset managers we work with, we build a holistic view of portfolio alignment, which is vital for identifying and influencing emissions reductions in the real economy.

Our portfolio alignment target is designed to work with our investment process, by measuring how funds are incorporating net zero into their investment process. This means that we have direct control over whether we select a fund that is aligned to net zero, and we have the ability to influence our existing fund managers to start incorporating net zero.

An example of this would be an environmentally focused fund which aims to select companies that are enabling the transition to a net-zero economy, but has a high carbon intensity due to the sectors these companies are in. If our Fund Research team is confident that this fund is aligning with net zero (according to our Coutts Net Zero Investment Framework), this fund should decarbonise over time regardless of its current carbon intensity.

Enabling pragmatism

Portfolio alignment measurement also enables a degree of pragmatism in our approach. We recognise that the carbon intensity of portfolios will not always reduce quarterly and there will be periods where we experience an increase in our portfolio carbon intensity.

This can be because of market movements, such as a rotation from growth into value stocks, or because we take a tactical asset allocation into markets or themes with a higher-than-benchmark carbon intensity. Portfolio alignment measurement therefore provides us with us the invaluable analytical counterpoint to know if we are moving in the right direction, despite increased carbon intensity during these periods.

A pivotal role

Asset managers can play an undeniably pivotal role in the transition to net zero. With trillions of dollars of capital under their stewardship, the way the industry manages these assets will be a crucial determinant in whether the goals of the Paris Agreement are achieved, or not.

I believe that only by employing both backward and forward-looking analytics and using these measures to set interim science-based targets can asset managers fully ensure that they maintain a credible path towards helping achieve a net-zero economy by 2050.

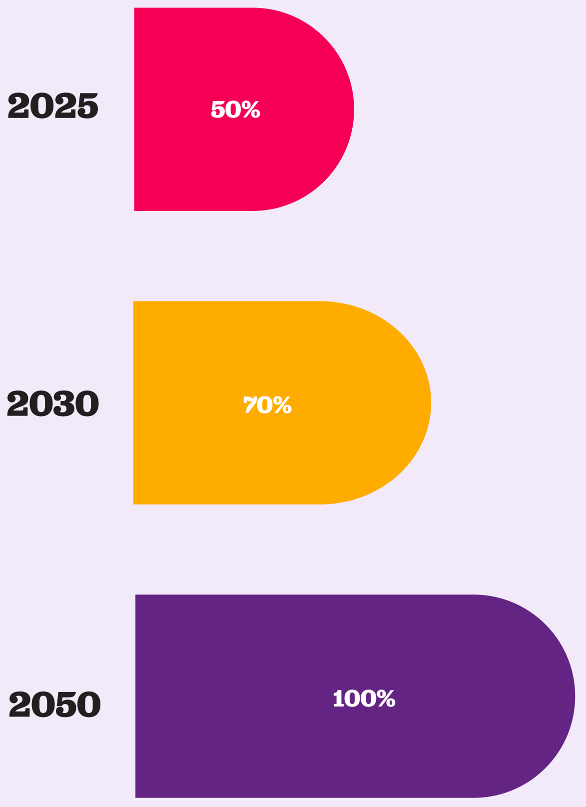
NatWest Group aims to reach net-zero emissions across its AUM by 2050. Long-term Paris Agreement alignment of our managed funds is being delivered through an interim decarbonisation target of 50% carbon intensity reduction across AUM by 2030. This is to ensure we are fulfilling our net-zero ambition within the required timeframes to limit global warming to 1.5ºC. In addition, we are targeting 50% of AUM to be on a net-zero trajectory by 2025, increased to 70% by 2030.

Net-zero emissions across our AUM by 2050

Carbon intensity reduction across AUM by 2030

Aligned with net zero by 2025, increased to 70% by 2030*

*Aligned to NZAM Investment Framework



Coutts' investment in funds managed by third parties therefore means that any targets set on a Coutts level are highly dependent on selected fund managers delivering on their own targets and making all relevant information available. As an asset manager of diversified multi-asset funds and portfolios, Coutts allocates capital across different asset classes, sectors and geographies. Given the global exposure within the investments we manage, our ability to deliver on the climate-related targets set will depend on there being sufficient attractive investment opportunities that simultaneously achieve the desired climate-related outcomes. For example, a reduction in the carbon intensity of Coutts AUM is achieved through a reduction in the carbon intensity of the underlying investments. This in turn depends on the availability of suitable investment opportunities that have lower carbon intensities while providing the desired investment characteristics (such as risk, return, liquidity, etc.). Where Coutts has set ambitions to align its funds and discretionary portfolios to Net Zero, these ambitions are based on Coutts' own assessment, judgments, estimates and assumptions and rely on third-party information that is both qualitative and quantitative, as well as public and private. Due to the current absence of global consensus around fund and company net zero alignment, Coutts' assessment of Net Zero alignment is based on industry accepted frameworks (e.g. PAII Net Zero Investment Framework, CDP) and aim to reflect current industry best practice, as well as the recognition that certain net zero-related definitions and requirements are likely to evolve over the coming years. In this event we may revise any such ambitions, targets and commitments.

5 minutes with...

The NatWest Group Sustainable Futures Network

Q: What is the Sustainable Futures Network?

The Sustainable Futures Network (SFN) is a bank-wide employee-led network which supports and encourages colleagues to embed sustainability at work and at home. It was founded in 2019 when two of NatWest Group's graduate trainees decided that they wanted to enable more of their colleagues to drive meaningful change in the bank and in their everyday lives.

Q: How did it come about?

Once the vision of the network had been established, support was secured for the idea from senior managers, business leads and ultimately, the CEO of NatWest Group, Alison Rose, who gave the final approval for the network to launch. Within the space of three years the network has grown from two passionate graduates to a network of 2,610 members and 43 leadership team members[1], driving action across the organisation at every level from bank-wide change to local community initiatives.

Q: What does the SFN hope to achieve?

We want to ensure that every colleague understands the realities of climate change. Namely, its impacts on our individual lifestyles and the broad repercussions on our financial system. In the face of the huge shifts that climate change brings, we want colleagues to feel optimistic about the future, to understand the opportunity that it brings for our customers, and the positive changes we can help them make.

Q: What have been the major achievements of the SFN so far?

Apart from helping so many of our colleagues to feel educated and empowered about making positive environmental change, we've also delivered some very tangible outcomes. For instance, our Sustainability Champions initiative has given colleagues access to a structured learning programme and the chance to set their own personal and professional sustainability

Members of the Sustainable Futures Network, left to right: Dinesh Kapur, Daniel Gibbs, Alberto Pardo, Alexandra Tait

1 Source: NatWest Group, 31 August 2022.

objectives – creating a cohort of passionate individuals driving change on a raft of sustainability issues. In January 2020, we also collaborated with carbon footprint tracking tool, Giki Zero Pro, which has enabled 3,833 colleagues to commit to reducing over 500,000 kgs of carbon in less than one year[1]. And as a result of our work with Giki Zero, the SFN won the BusinessGreen Employee Engagement Campaign of the Year Award.

Q: How has the SFN influenced senior management thinking at NatWest Group?

As an employee-led network, the SFN acts as a voice for NatWest Group colleagues on matters of climate and sustainability. This means we have a regular dialogue with the company's executive committee: providing updates on what we're working on and relaying the sentiment of our members on specific climate topics. As such, we have been able to play our part in directly raising and shaping the bank's climate agenda. One area in particular has been the SFN's key role in the bank's Climate Education Working Group, where we have worked alongside the bank's full-time education team to deliver complementary sessions on a range of topics important to our members.

For us, this engagement feels incredibly empowering: knowing that the next generation of leaders are already being listened to and informing future business priorities.

Q: What is the SFN working on right now?

One of our key ambitions is to engage other businesses to stimulate sustainable change from within. We know that empowering employees can lead to enormous success in challenging the status quo in any organisation, and by sharing the 'Institutional Activism' strategies we've developed, we believe that we can help passionate people create change wherever they work.

Q: How are you inspiring this change?

We started exploring this theme at COP26 by chairing an event with Microsoft, Hitachi Rail, and Scottish Power which focused on the potential of empowering youth activism. In March 2022, at an event jointly hosted with KPMG's sustainability network, the SFN expanded the discussion further. Over 80 people from customers and partner organisations, joined us for a panel discussion and interactive workshop about how to successfully build purpose-led businesses. For us, this clearly demonstrated the power that can come from effectively partnering with the right organisations. But more importantly, it showed how we can create a positive influence that extends far beyond our own organisation.

1 Source: NatWest Group, 31 August 2022.

The key findings, estimates and projections in this document are based on various industry and other information and are based on assumptions and estimates and the result of market research, and are not statements of historical fact.

Caution about the information this document is based on. This document is prepared based on reviews and analysis of (i) our data derived from management systems that are not necessarily part of the internal controls and procedures over financial reporting that generate our audited financial statements; and (ii) financial, statistical and other information and data published by third parties. This document and any information contained or otherwise accessible through the websites mentioned in this document are historical and only speak as of their respective date. NatWest Group is under no obligation to update these materials, absent a legal duty to do so. Any information contained on any websites linked or referenced to in this document is for information only and is not incorporated by reference in this document. To the extent permitted by law, NatWest Group makes no representation, warranty or assurance of any kind, express or implied, or takes no responsibility or liability as to the fairness, accuracy, reliability, reasonableness, correctness or completeness of third parties' data included in this document or any of the opinions or conclusions expressed in these sections.

Caution about and climate-related data and climate-related communication. There are significant challenges in relation to climate-related data due to quality and other limitations, in particular lack of accurate, complete, consistent, comparable and verifiable data. These and other factors, contribute to the significant uncertainties inherent in accurately modelling, estimating and disclosing the impact of climate-related risks and opportunities. In addition, the maturity of underlying data, systems and controls that support climate-related reporting is generally considerably less sophisticated than the systems and internal controls for financial reporting and it also includes manual processes. In addition to the data challenges, climate-related reporting in our industry is not yet subject to the same globally recognised or accepted reporting or accounting principles and rules as traditional financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for NatWest Group to follow or align to and climate-related measures between organisations in our industry may be non-comparable. Preparation of some of the climate-related reporting requires the application of a number of key judgements, assumptions and estimates. These judgements, assumptions and estimates are subject to change, and, when coupled with the longer time frames used, make any assessment of materiality inherently uncertain. In addition, our climate risk capabilities and net zero transition strategy and plan remain under development, and the data underlying these will evolve over time. As a result, we expect that certain information, statements and opinions contained in this document may subsequently prove to be incorrect and are likely to be amended, updated or restated in the future.

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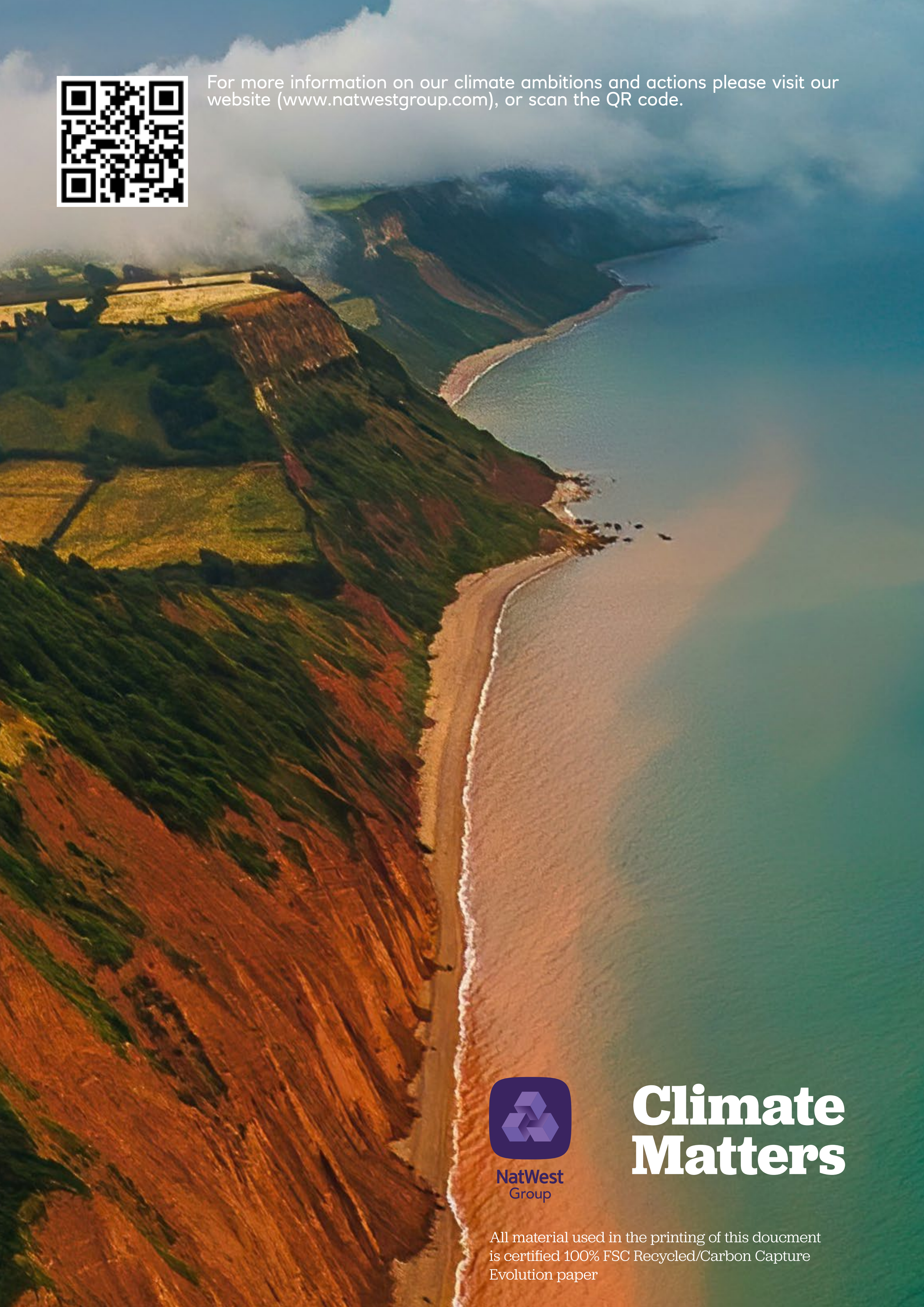

For more information on our climate ambitions and actions please visit our website (www.natwestgroup.com), or scan the QR code.

NatWest Group

Climate Matters

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