



5.7

Cautions about climate-related metrics, data and methodology challenges

Caution about climate metrics challenges.

Climate metrics, including aims, ambitions, estimates, forecasts, plans, projections and targets and other climate metrics used in this report, especially if they are forward-looking, merit special caution as they are more uncertain than metrics based solely on factual historical financial information.

Climate metrics in this report include, among others:

- estimates of historical emissions, such as financed emissions, absolute emissions, and various emissions intensity metrics, implied temperature rating or estimates of historical climate change, temperatures and other information; or
- forward-looking climate metrics, such as ambitions, targets, climate scenarios and emissions intensity pathways, and estimated climate projections and forecasts. See 'Caution about climate-related and other forward-looking statements and metrics in this report' below.

The evolution of climate change and its impacts is highly uncertain, as are the metrics and methodologies used to measure, estimate and report those impacts and emissions. Accordingly, both historical and forward-looking climate metrics are more inherently uncertain and, therefore, less reliable than metrics based on historical financial statements.

There are many significant uncertainties, assumptions and judgements underlying climate metrics that limit the extent to which climate metrics are reliable. The most important of these are:

1) Risks inherent in climate-related data

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, verifiable, reliable, consistent and comparable climate-related data. The financial sector is grappling with risks related to data availability and quality and access to data on a timely and verifiable basis. The most important of these risks are:

- Climate-related data may not be generally available from counterparties or customers or, if available, is generally variable in terms of quality and, therefore, may not be accurate, verifiable, reliable, consistent, or comparable.
- In the absence of accurate, verifiable, reliable, consistent, and comparable climate-related data, financial institutions necessarily rely on aggregated information based on high-level sector data developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions and therefore such data may not be accurate.
- Data is less readily available for some asset types and there may also be data gaps, that are filled using "proxy" or other data, such as sectoral averages, again developed in different ways.
- There is no single, global, cross-sector data provider that adequately and consistently covers the needed scope for data to analyse emissions and assess physical and transactional risks across operations and portfolios.

Voluntary and mandatory climate-related frameworks vary in their data quality measurement, and the way in which customers collect and disclose asset-level climate data also varies significantly.

- While regulators and standard setters begin to mandate additional disclosure of verified climate-related data by companies across sectors, there are potential gaps between needed and available data.

Poor quality and availability of high-quality historical and current emissions, or subsector data is currently a significant obstacle to the calculation of carbon-related metrics. The absence of widely available, detailed, accurate, verifiable, reliable, consistent and comparable and other high-quality climate and subsector-related information makes it challenging to accurately disclose or estimate metrics used to assess climate-related risks and opportunities.

- The availability of climate, industrial classification, energy use and efficiency data – including information used as a proxy for that data (e.g., EPC rating) – depends on a variety of public, private and civic sector sources. Historically, climate data was largely environmental and weather data was produced by government agencies. However, the challenge is finding the relevant sources if they exist, and then validating, cleaning, and standardising the data in an accessible form or format.

Climate metrics and data, the models, scenarios used to create them and the measurement technologies, analytical methodologies and services that support them remain in an incipient stage. Accordingly, the quality and interoperability of these models, technologies and methodologies, is also at a relative early stage. Significant gaps in sectors, subsectors and across asset classes are impeding not only climate risk management, but also the development of mitigation and adaptation strategies, as well as aspects of operations and credit risk and investment analysis that depend on data-informed processes.

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

- Many voluntary disclosure frameworks and methodologies for calculating climate metrics are new and evolving, leading to multiple metrics estimates that are not directly comparable.
- These differences are compounded by a lack of international coordination on data and methodology standards.

Existing estimation methods present significant challenges and the development of a more market accepted consistent way of measuring and reporting Scope 3 emissions across sectors where they are material and relevant is needed.

Where methodologies are publicly described, differences across data providers can still make resulting disclosures difficult to compare for investors and others evaluating climate exposure across their holdings.

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

- Climate metrics are complex and require many methodological choices, judgements and assumptions.
- Temperature scenarios and climate metrics and data generally include a set of assumptions that incorporate existing or planned global or regional policies, a business-as-usual sociodemographic projection, and projections for technological progress (including negative emissions and sequestration technologies), none of which may happen as contemplated, and, therefore, the scenarios, climate metrics and data based on those assumptions, may be incorrect.
- Some assumptions attempt to compensate for existing data gaps, such as past emission trends or comparable and reliable company specific targets.
- Other assumptions rely on given climate scenarios and transition pathway models, the details of which can vary widely despite representing similar outcomes.
- Uncertainty around future climate-related policy in particular can contribute to greater variation in transition pathway models.
- Until other challenges are addressed, there may be a large resource burden associated with calculating and disclosing forward-looking metrics, which often require the assistance of one or more external data and methodology providers.



Cautions about climate-related metrics, data and methodology challenges continued

- In addition, design issues specific to financed emissions raise challenges, particularly around allocating emissions to the wide range of financial activities. Financed emissions from owning 1 percent of a company might include 1 percent of that company's emissions; a portfolio can rapidly double count if aggregate financed emissions include each underlying company's own Scope 3 upstream and downstream emissions. The calculation becomes significantly more complex with other activities, such as when a financial institution serves as a counterparty or is one of multiple underwriters of a financing.
- The preparation of this report requires the application of a number of key judgements and also requires assumptions and estimates to be made. The key areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to this report, include financed emissions, facilitated emissions and portfolio alignment and measurement of climate-related risk and operational emissions. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect. These judgements and resulting data presented in this report are not a substitute for judgements and analysis made independently by the reader.

4) Risk inherent in methodologies for estimating and calculating GHG emissions.

- The methodologies for estimating and calculating GHG emissions, financed emissions, whether absolute emissions or emissions intensities and other climate-related metrics (such as estimating facilitated emissions) are by comparison to financial metrics in their early stage of adoption and application and may vary widely in their approaches.
- Some methodologies use company-specific historical emissions data while others result in estimation of emissions based on sectoral or geographical data or averages. Of those that incorporate emissions targets, there are different criteria for the types of targets that can and cannot be used.
- Methodologies vary in their use of Scope 1, Scope 2, and/or Scope 3 GHG emissions. Some use only Scope 1 data, while others use Scope 1 and 2, and yet others take Scope 1, 2, and 3 GHG emissions into account.
- Certain methodologies take cumulative historical GHG emissions into account while others incorporate point-in-time assessments of emissions intensity.
- Methodologies may incorporate different climate-related scenarios or emissions pathways, or even utilise internal proprietary future emissions pathways.
- Certain methodologies may be better suited to assessing certain asset classes and may vary in whether some asset classes can be assessed at all.
- Variations in methodologies may also lead to under – or overestimates of implied temperature rise, and consequently an exaggerated indication of climate-related risk.

Moreover, some available methodologies may only include a limited number of technologies and indicators, while other important levers/indicators that are needed to understand transition risks and opportunities in certain sectors may not be included.

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

- The practice of modelling the impact of climate-related risks on the financial sector is improving rapidly but remains under development. As a result, there are currently a number of limitations with respect to data and analysis techniques, which should be borne in mind.
- Scenarios are not forecasts (they do not mean to predict future outcomes); rather they are projections of alternative plausible futures that are designed to build an understanding of the nature and size of changes that may occur in future. They do not reflect all possible future pathways.
- Predicting climate change and quantifying its impacts on the economy is inherently complex – in how the impacts of climate change will impact asset values, how companies will react to regulatory and market pressures, as well as how NatWest Group's customers will react and adapt to these impacts.
- Like any modelling, the further out the projection, the greater the uncertainties. When interpreting model outputs, it may be that the direction of change is more useful for decision-making than point estimates within one scenario's results.
- Climate scenarios and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty.
- Climate scenarios cannot fully capture all of the potential effects of climate, policy and technology driven outcomes. For example, the Intergovernmental Panel on Climate Change (IPCC) projects that substantial deployment of negative emissions technologies, such as biomass energy with carbon capture and storage (CCS), would be required to achieve a 1.5°C outcome, and many analysts draw similar conclusions about reaching 2°C. The cost and availability of such technologies has a significant effect on the estimated price of carbon that would be required to deploy them. Other things being equal, models that assume the availability of low-cost CCS or other as-yet-nascent technology will project more modest carbon prices to achieve stringent climate change mitigation goals. Models that assume limited availability of these technologies at low cost will project higher costs to achieve the same climate goals.
- Scientific understanding of climate change continues to develop. This may enable a more granular and precise understanding of some kinds of climate-related risks in future.
- Finally, models cannot fully capture the range of societal changes that could result from climate change. These could include changes in dietary preferences, migration patterns, and political preferences. As climate continues to change, decision-makers will respond in ways that can both create and alleviate risks. The costs of models do not fully capture the possibility of low-probability but high-impact risks and opportunities. Market actor and policymaker responses are complex and should be considered qualitatively along with a quantitative scenario analysis. Some of these limitations are inherent to many models but are in this case further exacerbated by the often-multi-decade time horizon and the complexity and interdependencies of the effects modelled, from ice sheets melting to agricultural yields and migration: To mitigate the limitations of scenarios and modelling, practitioners should analyse multiple scenarios with various underlying assumptions and parameters.

Over reliance by regulators or financial institutions on a limited number of the same prescribed models or scenarios (e.g., the NGFS scenarios) may amplify systemic climate-related risks.



Cautions about climate-related metrics, data and methodology challenges continued

Caution about judgments, assumptions and estimates, the lack of commonly accepted reporting practices, the non-comparability of information and the lack of definitions or standards.

The preparation of certain information in this report requires the application of a number of key judgments, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities. The reported measures in this report reflect good faith estimates, assumptions and judgments at the given point in time. There is a risk that these judgments, estimates or assumptions may subsequently prove to be incorrect and/or may need to be restated or changed.

Climate-related reporting in our industry is not yet subject to the same globally recognised or accepted reporting or accounting principles and rules as traditional financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for NatWest Group to follow or align to and climate-related measures between organisations in our industry may be non-comparable.

In addition, the maturity of underlying data, systems and controls that support non-financial reporting is generally considerably less sophisticated than the systems and internal controls for financial reporting and it also includes manual processes. This may result in non-comparable information between organisations and between reporting periods within organisations as methodologies develop. The further development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this report and the reader may therefore not be able to compare performance metrics, data points or targets from one reporting period to another, on a direct like-for-like basis. NatWest Group plans to continue to review available data sources and enhance its methodology and processes to improve the robustness of its climate-related reporting over time aligned with recognised industry developments.

Further to the above, there is currently no single globally recognised or accepted, consistent and comparable set of definitions or standards (legal, regulatory or otherwise) of, nor widespread cross-market consensus:

- as to what constitutes, a 'green', 'social' or 'sustainable' or having equivalent-labelled activity, product or asset; or
- as to what precise attributes are required for a particular activity, product or asset to be defined as 'green', 'social' or 'sustainable' or such other equivalent label; or
- as to climate and sustainable funding and financing activities and their classification and reporting.

Therefore, there is little certainty, and no assurance or representation is given that such activities and/or reporting of those activities will meet any present or future expectations or requirements for describing or classifying funding and financing activities as 'green', 'social' or 'sustainable' or attributing similar labels. We expect policies, regulatory requirements, standards, and definitions to be developed and continuously evolve over time.

Caution about references to websites.

- Reference to websites and other reports is made for information purposes only, and information found at such websites or in such reports is not incorporated by reference into this report. To the extent permitted by law, NatWest Group makes no representation, warranty or assurance of any kind, express or implied, or takes no responsibility or liability as to the fairness, accuracy, reliability, reasonableness, correctness or completeness with respect to (i) the third-party information found at any websites operated by third parties; or (ii) the information provided in sections 3.4 of this report (Case Studies).



5.8

Climate-related data and other forward-looking statements and metrics

Certain sections in this report contain climate-related and other forward-looking statements and metrics, such as aims, ambitions, estimates, forecasts, plans, projections and targets and other climate metrics, including but not limited to,

- NatWest Group's ambition to at least halve the climate impact of its financing activity by 2030 and align with the 2015 Paris Agreement;
- NatWest Group's ambition to become net zero by 2050 across its financed emissions, assets under management and operational value chain;
- NatWest Group's target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025;
- NatWest Group's aim to provide at least £10 billion in lending for EPC A or B rating residential properties between 1 January 2023 and the end of 2025 as a sub-set of its wider target to provide £100 billion of climate and sustainable funding and financing between 1 July 2021 and the end of 2025;
- NatWest Group's ambition that 50% of its mortgage book will have an EPC rating of C or above by 2030;
- NatWest Group's sector level emissions reduction targets validated as science-based by SBTi, climate scenarios and emissions intensity pathways, estimated climate projections and forecasts; and

NatWest Group's plan (i) not to provide reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers; (ii) that after 31 December 2025 not to renew, refinance or extend existing reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production; and (iii) not to provide reserve based lending and borrower base financing to upstream oil and gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic waters.

Words or phrases such as 'ambition', 'aim', 'anticipate', 'believe', 'budget', 'continue', 'could', 'effort', 'estimate', 'expect', 'forecast', 'goal', 'guidance', 'intend', 'intention', 'may', 'objective', 'outlook', 'plan', 'potential', 'predict', 'projection', 'seek', 'should', 'target', 'will', 'would' or similar expressions that convey the prospective nature of events or outcomes generally indicate other forward-looking statements.

There are many significant uncertainties, assumptions, judgements, opinions, estimates, forecasts and statements made of future expectations underlying these forward-looking statements which could cause actual results, performance, outcomes or events to differ materially from those expressed or implied in these forward-looking such statements.

The most important of these uncertainties and factors that could cause actual results and outcomes to differ materially from those expressed or implied in forward-looking statements are summarised in the 'Risk Factors' included on pages 404 to 425 of the NatWest Group 2022 Annual Report and Accounts (with special regard to the risk factors in relation to 'Climate and sustainability-related risks' that describes several particular uncertainties, climate and sustainability-related risks to which NatWest Group is exposed and which may be amended from time to time).

Other uncertainties and factors include, without limitation:

- the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the macroeconomic environment;
- uncertainty around future climate-related policy, including the timely implementation and integration of adequate government policies;
- the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to mitigate the impact of climate and sustainability-related risks;
- changes in customer behaviour and demand, changes in the available technology for mitigation;

- the roll-out of low carbon infrastructure;
- the availability of accurate, verifiable, reliable, consistent and comparable climate-related data;
- lack of transparency and comparability of climate-related forward-looking methodologies;
- variation in approaches and outcomes – variations in methodologies may lead to under or overestimates, and consequently present exaggerated indication of climate-related risk;
- reliance on assumptions and future uncertainty (calculations of forward-looking metrics are complex and require many methodological choices and assumptions); and
- see also, Section 5.7 ('Cautions about climate-related metrics, data and methodology challenges') of this report.

Accordingly, undue reliance should not be placed on these statements.

Furthermore, changing national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development, are subject to different interpretations. There can be no assurance that these standards, practices, requirements and expectations will not be interpreted differently than what was NatWest Group's understanding when defining its climate-related ambitions and targets or change in a manner that substantially increases the cost or effort for NatWest Group to achieve such ambitions and targets.

No duty to update

The forward-looking statements contained in this report speak only as of the date we make them. Except to the extent legally required, we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements in this report, whether to reflect any change in our expectations regarding those forward-looking statements, any change in events, conditions or circumstances on which any such statement is based, or otherwise.

No offer of securities or investment

The information, statements and opinions contained in this report do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

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