NatWest Group plc

Climate Spotlight

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30th March 2023

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Paul Thwaite: Good afternoon, everybody, welcome, thank you for joining our Spotlight on Climate today. Good to see everybody. I'm Paul Thwaite, I'm here today with James Close, our Director of Climate Change. The running order for today, relatively simple, I will start the session by briefly setting the broader strategic context, I'll hand to James who's going to cover our climate strategy, the significant progress that we've made to date and our transition plans. I'll then return to talk about what this means for our customers, our growth aspirations and how we are developing very much a "systems led approach", focusing specifically on property and energy today, and then, all being well, James and I will speak for about 30 minutes and will then be joined by Alison, Katie and Lloyd, who is our Head of Residential Mortgages, to answer any questions that you may have.

So, a little bit of context first…it's now over three years ago actually we announced our purpose led strategy in which climate change was one of our three focus areas, so we're 3 years on. We believed then that tackling climate change was and still is a fundamental issue of our time and that banks had a crucial role to play in mobilising finance to achieve those net zero ambitions.

NatWest is one of the first [UK] banks and one of the largest globally to have climate targets validated by the SBTi as science based. We also published our initial Climate Transition Plan in February as part of our Full Year results.

More recently, tackling climate change has become an integral part of our bank's growth strategy. In the February annual Results, Alison introduced three Growth Levers, delivering personalised solutions across our customers lifecycle, supporting customers' sustainable transitions, and embedding our services in our customers' digital lives.

So, sustainability underpins all of those components of growth. For example, embedding sustainable solutions into both personal and business banking services where there is both strong customer demand but also high relevance. So, the growth opportunity was also further highlighted in The NatWest "Springboard to sustainability" report which we released last year. The report stated that the UK economy could benefit from a potential £175bn of revenue opportunity for small and medium sized businesses via the transition, but also create 260,000 jobs and up to 30,000 new businesses.

We believe we can help access that wider opportunity by providing a lot more practical support to our business and personal customers to make those necessary changes and investments, more money for green mortgages to our retail customers, and more tools and partnerships to rapidly increase retrofitting across the UK.

So, we firmly believe that there are attractive, risk adjusted returns to be earned and we are very much confident that our climate ambitions are consistent with providing real opportunity for growth in support of our 14-16% medium-term RoTE target.

Hopefully, we will bring more of this strategy to life, but for now over to you James.

James Close: Thanks, Paul and good afternoon, everybody. For those who don't know me, I'm James Close, I'm the Head of Climate Change here at Natwest Group and prior to this, I was Director for Climate Change at the World Bank in Washington DC.

As you've heard, our ambition at Natwest is to be a leading bank in the UK, helping to address the climate challenge. We set out our climate strategy in 2020 and last year gave shareholders a "Say on Climate" by including a Climate Resolution at our 2022 AGM.

That resolution was endorsed by our shareholders with over 92% of votes cast in favour, indicating a strong commitment to our strategy. In February 2023, we published our initial Climate Transition plan, which provides a roadmap to meet our 2030 ambitions, focussing on our ambition to halve the climate impact of financing activity by 2030, on our journey towards net zero by 2050.

So let me tell you more about our ambition and how we aim to achieve it. Our aim at Natwest Group is to be net zero by 2050 across our financed emissions, our assets under management and our operational value chain. In order to track our progress towards this ambition we have set interim ambitions for 2030. So, taking 2019 as the baseline, by 2030 we have an ambition to at least halve the climate impact of our financing activity to align with the 2015 Paris Agreement; reduce the carbon intensity of our Assets under Management by 50% and to move 70% of in-scope asset under management to a net-zero trajectory and thirdly, to reduce the emissions for our operational value chain by 50%.

We are helping to address the climate challenge in four ways which I'll describe in more detail in the next slide.

First, by supporting customers transition to net zero, second, we are helping to end the most harmful activities, third we know that we cannot achieve this by ourselves, so we are working with others, forging partnerships and collaborations to maximise our impact, and we know we also have to get our own house in order as well.

We believe we have made good progress in each of these four areas, which I'll illustrate by focusing on some of the points on this slide.

I'll start with how we're supporting our customers' transition to net zero. In October 2021 we set a target to provide a £100bn of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025. By the end of 2022 we had contributed £32.6bn towards that target across our three businesses Retail, Private and Commercial and Institutional Banking. Within this £100 bn target, we also aim to make at least £10bn of lending available for residential properties with an EPC rating of A or B.

And our Green Mortgage product offers a discounted rate to customers who have properties with these ratings, and since their launch in

December 2020, we have completed £2.9bn of Green Mortgage lending in Retail Banking and Lloyd Cochrane who's our Head of Mortgages, will be joining us for Q&A and can share more on this support to customers.

When it comes to ending the most harmful activities, we've made commitments on coal, oil and gas and are making progress in these areas. We plan to phase-out UK coal production, coal fired generation and coal related infrastructure by October 2024, and to do this globally by January 2030.

As a result, we've reduced our exposure to coal from £600m to £300m pounds since 2021. Our Oil and Gas sector represents just 0.7% of our current lending exposure and we have assessed our oil & gas majors against a temperature aligned credible transition plan.

In February, we announced that we will not provide reserve-based lending for new customers specifically for the purpose of financing oil and gas exploration, extraction, and production and from the end of 2025 we will not renew, refinance or extend existing reserve-based lending.

Last month, a Bloomberg New Energy Finance report stated that NatWest tops the ranking of [i.e., has the highest ratio of] global banks underwriting Green Energy. This sends a strong signal that we are committed to ending the most harmful activity whilst financing the transition.

We know that tackling climate change cannot be done alone so building powerful partnerships is vital. This has to be a team sport if we are to move at pace and scale to ensure that we are doing the right thing.

We are a member of the Glasgow Financial Alliance for Net Zero which is a global coalition of financial institutions working to implement the transition and we are also a member of the Financing a Just Transition Alliance, a programme designed to identify the role that finance can play in connecting action on climate change with inclusive development pathways.

We recognise that NatWest can play a role that goes beyond the provision of capital, by, for example connecting homeowners with energy companies and retrofit specialists to make retrofitting easier, second, kickstarting the market for green technologies and services by helping to grow customer demand and also through partnerships like the one coordinated by places for people.

This is why Alison has been asked by the Chancellor to co-chair the UK Government's Energy Efficiency Taskforce which is targeting to reduce the total UK final energy demand by 15% by 2030, across domestic, commercial and public buildings and industrial processes.

This task force will play a pivotal role to looking at how government policy can galvanise the necessary action by the private sector to meet government targets.

Finally let me give you some examples of how we are getting our own house in order. Having climate change at the heart of our purpose-led strategy we are constantly changing the way we operate as a bank. By 2030 we plan to halve emissions across our operational value chain compared to 2019. To date, we have reduced emissions in our direct own operations by 46% compared with a 2019 baseline.

We also include climate targets in senior executive remuneration – so 10% of our executive directors' annual bonus is based on performance against our climate targets. So let me tell you more about our transition plan.

The initial iteration of our Climate transition plan is underpinned by 2030 sector-based SBTi validated science-based targets. During 2022, we focused on developing emission intensity transition plans at a sector level, focussing on supporting the transition of customers in key sectors with the most impact on the UK's carbon footprint and our customers' day to day lives.

We are developing a consolidated view of our current products and services across these sectors, and their potential impact on our estimated financed emissions.

We are also working to identify future opportunities and capital requirements and business model changes, which are likely to be required to support the transition.

This will enable us to increase our lending to customers as they transition enabling them to become more resilient businesses and seek related opportunities. Given the scale of investment, we expect a growing proportion of our lending to support customers' investments in green and transition technologies and operations.
Now let me now talk about the sector level targets on the next slide.

We were the first major UK bank to have sector level targets validated by the SBTi. Overall, we have set transition plans for 72% of our lending book as at December 2019, with the balance primarily covered by financial institutions where measurement methodologies are emerging.
We prioritised sectors with high emissions and emissions intensities, balance sheet materiality as well as those sectors for which we have already set validated science-based targets. The table on this slide shows the current status for sectors analysed against external pathways.

As you can see from this table that the progress in energy is aligned with the convergence pathway, but other sectors are either amber which means we are behind trajectory by up to 5%, or red which is behind by more than 5%.

This iteration has confirmed that further action is required by both NatWest Group and our customers to meet our plans, which in turn need to be supported by timely and appropriate government policies, to create incentives for transition and customer behaviour changes.

We will continue to evolve our climate transition plan and identify further products and services to support the UK's, our customers and our transition.

Let me now explain how we are adopting a system thinking approach to decarbonisation of the balance sheet.

While we have developed our plans on a sector basis, there are linkages between sectors which support decarbonisation across the economy. We recognise that the decarbonisation of some sectors will have a larger impact than other sectors. The most obvious example is energy.

Decarbonisation of energy demand and supply will play an important role in the decarbonisation of other sectors, especially mobility and buildings.

As another example, supply chain capabilities within the construction sector will influence the speed of retrofitting and decarbonisation within the commercial real estate sector. Paul will talk about this more in a moment.

Understanding these factors for each sector will allow us to identify opportunities to impact the broader size and direction of carbon flows between sectors.

You can see on this slide, that there are the sectors we consider currently within the systems with a break-down of our year end gross lending or Assets under Management.

Mobility, Energy, Property and Food have the most impact on the UK's carbon footprint and our customers' day to day lives.

This analysis, aligned with the UK's commitment in law, to be net zero by 2050, has informed our decision to continue to focus on supporting our customers' transitions to a net zero economy as one of our three future growth levers.

Further work by us, our customers and the government, provide an opportunity for us to mobilise our capital towards supporting the transition.

Our insights, underpinned by a deeper understanding of system carbon flows and customers' current and future carbon emissions, also help us understand and price risk better. But we recognise that achieving our climate ambition and delivering on our Climate transition plan is dependent on a number of factors beyond our control, including technological innovation, changes in consumer behaviour as well as consistent long term policy commitment from government.

This partnership between the public and private sector is key. I hope that gives you an overview of our strategy and initial Climate transition plan. I'll now hand back to Paul to talk in more detail about how we will put our plan into action in both Property and Energy systems, the two systems on which we've done the most work to date. Over to you, Paul.

Paul Thwaite: Thank you James. So, developing expertise and advice on how both sectors and systems are transitioning has been an integral part of the differentiated approach and growth strategy in the Commercial & Institutional franchise. It is also a very important lens through which we are seeking to manage both our credit risk and our capital allocation, to ensure we have a strong and resilient balance sheet.

As you, I'm guessing know, the Commercial & Institutional franchise supports a broad range of customers from start-ups, small businesses, all the way through to mid-corporates, large corporates and Financial Institutions.

However, what is common across our customers, is the value that they place on the support and practical help that we can provide them with to help tackle climate change.

For our larger customers, they value insights, ideas and research. For our smaller customers, they are seeking easy embedded solutions, as well as personalisation where they can analyse their carbon footprint, as well as their financial health, to inform actions they can take.

Based on our experience and customer insights over the last few years, I'd say we know the following things, firstly businesses are putting climate higher on their list of priorities, secondly, rising energy prices and greater volatility has improved returns on some transition projects. Thirdly, there is greater awareness across supply chains in carbon footprints and transition plans. Fourthly, more customers believe their banks have a role to play in supporting them in that transition, and finally the key barriers most often cited are time, know-how and financing.

So based on these insights, we focus our work with customers and clients on helping to raise awareness, to educate, to give them very practical tools to understand and measure their current carbon footprint, but also to identify opportunities to reduce their emissions.
This is all underpinned by our deep sector, product and local regional expertise and also as James alluded to, by powerful partnerships & collaboration.

By way of an example, we've teamed up with carbon footprint experts Cogo, to help our retail customers estimate the emissions associated with their spending and find ideas to reduce them. Last year over 330,000 retail customers used the carbon tracker in the mobile app which is a UK banking first.

As a result, customers can take action to lower their carbon footprint whether it be by composting food waste, reducing meat consumption, travel patterns, or second-hand clothes.
But more broadly is driving deeper customer engagement through the mobile app. We have also built Carbon Planner, a very neat, online portal that helps SMEs measure and develop their transition plans and how to decarbonise their footprint, including the ability to access financing.

We are also working with partners such as the Sustainable Food Trust, the Sustainable Markets Initiative, and UK Finance on wider systemic changes needed to transform the food sector, and a digitised tool to measure environmental outcomes for farmers through the Global Farm Metric.

Ultimately NatWest's role is to help unlock the opportunity for our customers which in turn leads to growth and opportunities for ourselves. However, to meet the global targets set out under the 2015 Paris Agreement, there is a shift in mindset towards what we can practically be done and that is critical. Helping businesses and consumers on this journey by providing financing and tools such as CoGo and Carbon Planner I have just talked to, are two simple but positive examples of this already in action.

Now let me now touch on how we are embedding climate into our decision making.

It is critical and hopefully self-evident, the climate risk has to be fully integrated in our decision-making.

In addition to supporting our customers' transition, it also helps ensure we build a resilient balance sheet but also unlocks the value that our shareholders want and expect.

Over the last few years, we have been building climate considerations into our existing decision-making frameworks, be they capital, credit or pricing to make sure that they take account for climate related risks and to enable us to manage our capital allocation accordingly.

Ensuring informed risk reward decisions. We are doing this by using and developing tools at both a portfolio and customer level, hopefully you can see this on the slide.

At a portfolio level, we have introduced an increasingly quantitative methodology to identify and assess sectors and subsectors exposed to heightened climate-related risk, Quantitative climate scenario modelling that has provided insights on the impact of climate-related transition risk. Dropping from the portfolio risk to a customer level, our priority is very much to support customers in their transition journey, ensuring solutions and options, are tailored and adaptive to their needs.

For our larger corporates, the launch of initial qualitative climate risk scorecards allows us to build a deeper level of understanding about our customers' exposure to climate-related risks, and also to the opportunities to support them.

For SMEs, the development and provision of tools like Carbon Planner, enable us to more effectively understand our customer's carbon footprint and transition journey, which can help identify climate related opportunities.
It also enables us to develop and offer more personalised customer solutions.

For our retail customers, it's about helping customers estimate the emissions associated with their spending and homes and vehicles, and find ideas to reduce them.

We are also working diligently on an Internal Carbon Pricing framework. All this insight brought together, will help us to further embed climate within our decision-making frameworks and tools, which will allow us to significantly improve our risk management and the pricing of that risk and opportunity. This will further support our wider growth ambition, helping to support the 14-16% medium term ROTE target.

James introduced our systems led or systems thinking approach. Let's now share an update on property to bring this to life.

The UK government targets a 15% cut in UK final energy demand by 2030, this presents a significant commercial opportunity to help decarbonise the UK property system, a role where NatWest's scale and influence enables us to support the development of a more integrated but also more effective supply chain. Achieving this target will require a maturing and scaling of the supply chain between customers, construction and installation services, technologies, and finance.

For example, focusing on housing associations to decarbonise their properties provides a large and concentrated demand.

We estimate that housing associations would need to borrow £36bn to successfully decarbonise, providing a clear demand signal for property retrofits. This will mobilise the construction industry and the installers to invest in developing the necessary skills, providing the potential support of 350,000 new skilled jobs.

Focusing on SMEs will create growth opportunities. I mentioned the Springboard to Recovery Report earlier. This estimates the revenue opportunity for SMEs alone for retrofitting residential homes, and installing heat pumps in residential and commercial property, to be between £105 to £120bn to 2030.

However, the property system is complex, its fragmented in some cases, but one in which NatWest's position means that we have both the scale and the influence across the whole value chain to play a critical role in supporting the transformation of the UK property system. Let's look at this more closely on slide 14.

Beyond the obvious provision of capital, NatWest can connect homeowners with energy companies and retrofit specialists to remove those points of friction for retrofitting buildings. We can achieve this in three main ways. Firstly, by supporting the supply chain. We are exploring with the supply chain sustainability school, how to build the skills needed to retrofit homes, across the whole of the UK. We are also working on how to provide financing to support our suppliers and customers' switch to low carbon materials and technologies.

Secondly, kick-starting the market for green technologies, materials, and services requires at-scale customer demand. Recognising the scale and urgency of the climate challenge, we have partnered with Places for People, British Gas Centrica and Schneider Electric, to work together on a significantly sized pilot project to show that retrofitting homes at scale is not only achievable but also an affordable goal.

We look forward to learning from this pilot, and collectively rolling it out and delivering solutions at scale to support customers with improving their property efficiency.

Lastly, an end-to-end retrofit solution for property owners to connect to our business customers. We're creating a One Stop Portal where customers will be able to work out what they need to improve the efficiency of their home, find the finance, and source a supplier.

We must make it as easy and cost effective as possible to encourage people to take the leap, whilst also recognising the economic challenges for households currently, but also the diversity of housing stock.
This will truly help us in deploying our mortgage products, including providing at least £10 Bn in lending related to residential properties with an EPC A or B rating from 1 January 2023 to the end of December 2025.

We think we can achieve a competitive advantage by putting ourselves at the heart of the UK property system transformation. One stop portals, strategic partnerships, personalised customer recommendations and green mortgages will embed us within our commercial and residential customers' finances.

Turning to the energy system. We know the energy system has to transform to support decarbonisation of other systems. Existing renewable technologies will continue to scale up and new technologies will emerge.

We have built a long-standing market-leading number 1, UK renewables business through understanding the commercial opportunities that are driven by changes in government policy and by building deep relationships with customers such as SSE and Scottish Power but also other energy providers in the UK and Europe.

We believe we can replicate this capability in other areas to take advantage of the requirements that are there to mobilise vast pools of capital. Our work on systems transformation gives us insights into the actors, the participants, and financing structures required to support the transition.

We will also need to work with partners, such as the UK Infrastructure Bank, to de-risk but also to mobilise that capital.
These opportunities to develop new proposals across the energy system respond to already announced government policy with energy security strategy, EV charging plans and hydrogen-economy financing all being potential avenues for exploration.

We are well positioned through our local regional and specialised sector coverage from where many of these projects and investments will originate. We are currently working through the opportunities across the system and we look forward to updating on our specific plans in this area.

So, in conclusion, let me summarise the key messages shared today.
Firstly, we were early to announce climate as a key focus area of a strategy back in 2020, and sustainable transitions have become an increasingly and integral part of our bank's growth strategy.

Secondly, we are one of the first UK banks to have climate targets validated by the SBTi as science based and recently published our initial climate transition plan. Our scale, our market position, our sector coverage and our thought leadership is allowing us to create partnerships across stakeholder groups, and to innovate and pilot new practical solutions as hopefully demonstrated by the examples shared with you today.

Thirdly, our focus on climate is not only the right thing to do, it is also at the heart and fundamental to our growth strategy. By focusing on climate, we are able to embed sustainable solutions into ever-more personalised banking services, forming the foundations for future sustainable returns. And we are doing this in ways that ensure we build a resilient balance sheet that unlocks the value that our shareholders want.

Fourthly, we will continue to support our customers' transition by providing financing, including a £100bn Climate Sustainable Funding and Financing target by December 2025, creating better and more digital tools on how customers can reduce their footprint, but also by partnering with others to help them grow.

We believe this presents a very real, very compelling, opportunity for commercial growth, achievable through the leadership position that we have established over the last three years and our commitment to unlocking long term sustainable value. Thank you for listening and I hope you have a clearer understanding of our climate and sustainability strategy.

I'd now like to invite Alison, Katie, Lloyd and James back to the stage and we're happy to take questions, thank you, and Alexander will compare I should have said.

Alexander Holcroft: Thank you Paul and thank you James, I'm Alexander Holcroft and I Head up the IR for the Group, as we said we'll hold an IR session now, we'll take questions from the room and on Zoom and on the phone and we also have some resubmitted questions as well. But in the room, if you'd like to ask a question, please raise your hand and wait for a microphone, it would also be helpful, thank you Alistair, it will also be helpful if you could say who you are and the organisation that you're from. If you're on Zoom and on the phone, and I'm really pleased to say, there are over 100 people watching this via Zoom and on the phone, if you'd like to raise a question please use the Raise Hand function on Zoom, if you're dialling in, you can press *9 to Raise your Hand and *6 to unmute once prompted. So, let's start the session.

Alastair Ryan (BAML): Good afternoon, it's Alistair, I'm from Bank of America, so, I guess 3 please, first have you seen a shift in customer demand following spike in energy prices last year or was that a spike that went away when the energy, basically, did everybody ask about green financing when gas was dear and now gas is cheap again, they've moved on or was it a structural shift?

Second, when you think about lending, how do you use the carbon price because the Bank of England are forever saying, it's going to be £1000 and most reasonable estimates is it's going to be 3 or 4 or £500, in order to facilitate the transition, but it's still only £80 so do you use the big numbers where we should be going or are you constrained to using the numbers that are actually experienced at present?

And the last piece really is, just timing, are you really aiming at Net Zero 2050 because if you're doing half of it by 2030, it sounds like you're trying to get there before 2050 and is that a business choice rather than a society choice, because it is, 2050 is the goal, it feels like you're moving rather more quickly than that? thank you.

Alison Rose: So, shall I just have a crack at the third and the first and Paul and James can fill in. So I think as you heard Paul talk about, we see the climate transition as a real business opportunity, so we think there is a core part of our growth lever, we see real demand, I think the change in demand is almost a change in tone, so whilst there is increasing demand because people really care about sustainability and they wanted to make the transition and we can see that through some of the research that we have with households and businesses, actually with the energy crisis, it's been about energy security and price, so the case for sustainability at an individual consumer and business level has become different but very real…

And what we've really focused on, that aligns very clearly with the strategy and the tools that we've put in place, translating 1.5 degrees into what do I do as an individual business owner, or what do I do as a household, that's where you know the investment that we're making in, practical tools, Carbon Planner, CoGo, all of the different elements, really help put the information in the hands of the customers, so, and so on the timing point of Net Zero, if we can get there faster, we will, we've been very clear there are dependencies on government policy, this is definitely something that needs public, private partnership, but in terms of demand, we see a real business opportunity and our research shows that there's £175bn revenue opportunity for our customers SME's by being part of the transition, so our role as a leading bank for SME's to help facilitate that is a real opportunity for us and for them which is why we're very practical as well as very strategic.

James Close: Shall I pick up the question on carbon price which I'm delighted to hear, I have to say, and we can have a long conversation about what the right carbon price is, when we're at the World Bank we were working with Joe Stern and Lord Stern and Joe Stigletz on the Stern Stigletz commission which had about $100 a ton as a societal cost of carbon. But I think the point is, that we will actually do this incrementally over time. We'll start off with a shadow carbon price, so that we can learn what the impact will have across our portfolio, and we'll apply it across industries that are more carbon intensive and then the relative carbon intensity of a business within that industry and we think that's the dynamics that will enable us to build in that shadow price of capital alongside the shadow price of carbon, and once we're confident that we can make that work for our balance sheet, and for our risk adjusted pricing, then we'll roll that out and make sure that it sits across the portfolio in an appropriate way.

Katie Murray: I think James one of the things I would just add to that as well is it's something we use actively today, as part of our internal capital assessments, when you're trying to test different scenarios, to actually say, what would happen if the price was more extreme than you suggested or less so, and that's actually how they are done. So actually we are doing shadow, in terms of pricing but it's also really used actively as part of our stress testing as well.

Paul Thwaite: One thing I'd add is that the carbon pricing would be one aspect of kind of a broader customer decisioning. So, you would have individual customer transition plan assessments, you would have quantitative score cards, then you'll factor carbon pricing in, that will allow you to get a really good view on the risk/reward and the underlying climate risk, so it's part of a broader approach to making sure we're pricing appropriately.

On the demand point, I think Alison covered it, Alistair in part, what I would say is there was already demand before the spike in energy prices, I think the spike only served to I guess increase the awareness and the demand and I'd say that's been sustained afterwards, I think that the awareness and the consciousness is now there, so we see an elevated level of interest both in terms of understanding but also in taking action as well.

Alexander Holcroft: Thank you. Jason.

Jason Napier (UBS): Thank you. Jason Napier from UBS. 2 please. The first one on the £100bn lending target, also takes into account presumably bond finance, refinancing during that period and so on? I don't really know how to think about how much on balance sheet, you know change we are to expect over that period of time, so maybe you can talk a little bit about what, if anything this means for changes to the shape of the balance sheet?

And then secondly the commentary that you've shared on the use of the maths on capital allocations and so on, if you could just talk a little bit more about that please, whether that is about stress test outcomes and how you actually divvy up that capital out on that basis please?

Alexander Holcroft: Alison, can we start with you and then move to Paul and then maybe Katie.

Alison Rose: Well, I think I'll get Katie to answer the £100bn target.

Katie Murray: Absolutely, so, as you look at the number we've done £32.6bn already, and you're absolutely right it is a blend of 'on' balance sheet as well as the financing and bond issuance piece. It's slightly more to the financing side but you can see with the target you've got around the £10bn of mortgages, that's clearly all on balance sheet and we have growing numbers as well within Paul's space as well and I think that's really important that it is the change in the balance sheet shape. What you can also just see in the way that we present our information to you, you'll see as you look at our loan book, it's more the further back part of the accounts, that actually, we give you all the risks and the sectors that are going to be most impacted by it and one of the things to watch is how that moves through and then again in the climate transition plan, there's the lovely little graphs of actually, it shows, where are we against those different aspects and to reach what we need to do, what we need to see if that you have a really good blend across both the financing and the funding aspects of that £100bn target.

So, we definitely are seeing our balance sheet changing in terms of that and having set those SBTi targets, for 72%, it means you have a really important, you're being held to real account in terms of what you are doing, as Alison said earlier, we won't do it alone, there will be policy change, but actually we can see that we've got the right mechanism in place that we're able to really track it and really offer the right product to customers.

Alexander Holcroft: Next question. Justin?

Justin Bistler (Schroders): Thank you Justin Bistler from Schroders, I think it's probably a question for James. I think you're probably one of the very, very few banks in the world to get SBTi validation of targets, pretty much every bank I speak to is saying it's almost impossible to do, what would your advice to them be, how come, Natwest has done it when others are struggling? And do you think the way in which you've done it is making the bank better in the long run or are there certain compromises that you've had to make to get the validation so quickly? Thank you.

James Close: Well, I think thank you Justin and I mean I think the answer to the question is just have a great team who can work through the detail of all of this which…

Alison Rose: Have a great person like James

James Close: No, it's been a phenomenal effort, it's been, the combination of finance and the franchises to really role their sleeves up and get under the detail of the numbers around this and our colleagues in data analytics have had to work really hard to get the right kind of data proxies as well. So, it is extremely time consuming, it's a major endeavour, but I think it's given us a real insight into what our balance sheet looks like today and what it needs to look like in the future, and I think that's what we're really here to talk about is, how we can use that insight in a way that will create long term value for us.
I haven't seen in the very short term immediate negative trade-offs here, we have obviously made decisions around oil and gas that you heard me

talk about earlier, but I think it's sharpened our focus on the areas where we can help our customers most effectively. We hope, just talking to Supriya beforehand that, we'll make it a little bit easier for other banks to do it because the engagement with SBTi was quite challenging because they're doing it for the first time as well. So, we hope others will follow because it's really important we get a real rigor around our collective approaches here.

Paul Thwaite: Maybe just to add on, the compromises I guess is leading the franchise which is accountable for 59% of the capital, it doesn't feel from a business strategy perspective that, that's involved any serious trade-offs of consequences, so very comfortable with both the process and the outcomes.

Alexander Holcroft: Thank you, just before we go there, for those people who are on Zoom or on the phone I'll just remind you to use the Raise Hand function if you'd like to ask a question. Please.

John Teahan (Redwheel): To Justin's point on SBTi, that's really welcome. One thing that SBTi do not do is monitor the progress that you've made and you put up a slide there, you show the progress against the individual sectors, is that what we should expect to see every year and then secondly, would they be audited numbers, because if you're setting an example for the banks to follow, you can raise the standard and put a little squeeze on there in terms of what to expect?

Katie Murray: So, you'll definitely see every year, in terms of if this was our second year of publishing a climate document, last year was the TCFD, we've now moved it onto the Climate Transition Plan, we'll do annual updates on that and our graphs, you'll see our dots move in terms of how we go there. It's interesting in terms of audit, you'll be aware of the SEC's expectations, that audit actually starts in 24 and then gets greater in 25 and 26, we'll see if actually that's what comes out from the states but I do think we have a growing involvement of the auditors in terms of what we have, those are not audited numbers, I wouldn't say that or EY would get me into trouble, but there's a lot of dialogue internally in terms of that piece and I think when it's appropriate and certainly we would do it impromptu in terms of the expectation that we would get to that point, I'd be very comfortable.

We're certainly building all of our models so that they comply with all of the SOCs, causal kind of types of frameworks that you have so they are highly auditable when it comes to the point, because that's important for us as a management team that we can really place great reliance on that, so I'm sure in time we'll get there and I won't give you a date but it's certainly the way industry is heading and I do think for me, if I look at our financial documents and the documents that Alison and I present internally, the presentation of that carbon number is as important as the presentation of the financial number and we want to know that they are as robust as each other, so you will continue to see that evolve in terms of quality. As the data improves, as the understanding improves, as we move forward.

Alison Rose: Yeah I mean I think, hopefully it gives you confidence where you can see what we're doing as our climate transition, it is a transition, we are very serious about it, it is something that we're running at a business level, and we're trying to give you as much transparency as we possibly can, I have always been very clear on our strategy that this is not going to be a linear path, we are going to need policy improvements, we will get better data as time goes on but what was really important was, we started and then we're giving you clear transparency of our progress.

Andy Risk (ABRDN): Two questions please. You mentioned on the slide, this will lead in capabilities in Capital Markets sustainable finance, so I wondered if you can elaborate on that if you see particular areas of strength, essentially where Natwest wins in this space or maybe what you've done to date that has helped with that? And then secondly maybe just a different topic, one of the key levers you mentioned sort of embedding yourselves in customers digital lives, and I think maybe one of the examples you get around that is the sort of linking, somebody wants to install a heat pump to the supplier, to the connector, I guess, is that how you see a sort of future vision for Natwest, is something that's essentially all these adjacencies which are a long way away from essentially issuing someone a mortgage, and it sounds a lot more like a kind of digital bank that puts a lot of all the boring stuff in the background like paying your bills, and puts the more interesting things or helpful solutions up near the front, I don't know if you could elaborate on that, that would be helpful, thank you.

Alexander Holcroft: Paul shall we start on the first one?

Paul Thwaite: Yeah, I'll take the first one. So, I think we're very early to, if not the first, one of the first to establish some dedicated teams around ESG and Climate Financing Advisory in our Capital Markets Team. I think when you look at the different Geographic Market Places, I think the UK led in some of those areas, I think Natwest was at the forefront of that, so we built the teams out over a number of years. I think what that's given them and given us and those teams is the ability to differentiate our own advice relative to our peers, both here in the UK but also in Europe. We've got some of the numbers in the slides but also numbers we've disclosed more broadly around I think it's £41bn of issued Capital Markets that's to me the evidence that over a number of years, we've advised and partnered with clients to take them through to the Capital Markets so I think it's about getting early but also then gaining the insights and differentiating our position.

So, that's how we've established that and we continue to invest in that area as well, it's an important area of growth for us. That's the first bit. And property…

Alison Rose: I'd just add as well, we are one of the leading banks in renewable financing by a number of transactions and have been, that's been a track record we've been building over a decade, so we have real leadership position in renewables, obviously with our relationships and Ecosystem, that's really where we're starting to leverage I think in partnership, you heard the Team talk about the systems based approach, but, we've got to get the Demand/Supply signals working really well and that's really how we're doing it but Lloyd you can talk about some of the examples.

Lloyd Cochrane: Yes, I think to your question about whether we want to be more integrated further up from just the boring mortgage bit, they weren't your words, they were similar. Yes is the short answer, all of the work that we've done, individually and with partners to this point about the property system, tells us with the Retrofit of UK Homes which is a huge undertaking, a bit investment opportunity for SME's as much as it's a necessity for homeowners, is it's complex, and so providing the funding is necessary but it's not enough, we need to provide customers with information, grow their awareness, grow their understanding, ensure that we're incentivising them to take those opportunities, but do that with select partners, so that the process is easy, today the process if you decide that you want to make an energy efficiency improvement and reduce your bills, an outcome of that is reduced emissions from our perspective but that's typically not a homeowners motivation.

It's a very confusing, complex process, and so there are fewer incentives to do it, so yes, we want to, the conversation about the One Stop Shop, we want to work with selected Partners to use the data we have, combine that with data that others have and make that process much easier than it is. Which unlocks a growth opportunity over the medium to long term we believe.

Alexander Holcroft: Thank you

Lisa Kuditis (JPM Asset Mgmt): On Capital Markets we welcomed the inclusion of facilitated emissions in your recent report, but because this is quite a new area, could you maybe speak to some of the challenges in reporting this and maybe what your plans are going forward, is it going to be included in targets and I think there are questions about aggregating that but just your views on this topic would be appreciated?

James Close: Yeah so, I think the first challenge of course is to get some decent quality data around it, I think, and we're obviously looking primarily at a sector level, and ultimately, we want to understand it from a counterparty level, so, there's a whole journey to go from where we are to where we need to be. I think it will be facilitated by standardisation as well, I think that is a really important trajectory that we're going to see from ISB and from others trying to converge around that standardised approach.

I think, we have built elements of our transitions through those individual sectors into our targets within the business and I think that is driving us to get better quality information and also to work out where to prioritise our actions to help us drive those emissions and deliver the targets there.

I think it's just going to be more integrated into everything that we do over time and I think that's where we've got a good head start and I think we're starting to see certainly conversations I've had with my peers that they're following in some of these areas as well.

Katie Murray: I think James we take disclosure very seriously, so we don't start to disclose something casually. We do think our disclosures in this area is going to evolve far more than you would have seen in other areas, just because the whole understanding is evolving, but having started to look at something we'll continue to evolve it and we'll highlight when it's changed and why and the methodology and things like that but it's something that will only continue to improve over time.

James Close: And just the final point is the PCAF scores is something that's got quite a lot of attention, and we've put in place plans to improve those PCAF scores over time as well.

Alexander Holcroft: At the back there please.

Divya Deepankar (Jupiter Asset Mgmt): I've got 2 sematic questions. The first one is about awareness amongst the Relationship Managers given much of your business actually happens through them, and the second is related to customer behaviour, in light of the current market. So, I guess the first one, I'd just be interested to understand, to what degree and extent is there good awareness within your Relationship Managers in terms of implementing the targets and goals you've set out and in your Transition Plan? And secondly, just looking at the 3 market environments we've just seen right, on one hand you've got interest rate hikes, on the other hand you've got never-ending increasing energy prices, but on the third side you've also got government intervention and trying to control what these energy bills are, now with all of these 3 factors, how do you see yourself meeting your own 2025 and 2030 commitments, do you see customers don't quite want any more energy efficiency improvements, because how about just delay that action when some of the interest rates are back down and we're back in the real world environment, so yeah I just want to know how you're thinking about the risk scenario against your own 2030 commitments?

Paul Thwaite: I'll take the first one.

Alison Rose: I'll take the second one.

Paul Thwaite: On Relationship Managers. So, over a number of years, we've invested quite a lot of time and quite a lot of money around education of not just the front-line Bankers but also the teams that support them. We've got a 3-year partnership with the University of Edinburgh, we've taken our Senior Leaders through the Cambridge Sustainability School, so really I guess starting from basic principles, around the science, the impacts on the economy, the impacts on society and then linking that to the financial sector, so we've had that running for quite a while.

In terms of the visibility on the targets, the transition plans, the reality is, every Banker wherever they are in the UK has good line of sight around the score card that they use with their customers, around transition, how to assess the climate risk, within their embedded customers, and they are totally socialised to the goals which we have as a Group, so to me it's at the heart of our strategy, because we see it as a growth opportunity, I'm sure and you can test yourself, you go out and speak to

Relationship Managers, it's very much front of mind around the understanding of it but also how they can support and help customers.

Alison Rose: Yeah I mean I'd just reiterate that, I mean, we talk about climate as a strategic imperative and you know, in our results, this year, we talked about the growth levers for the future, of which, sustainable financing is a core growth strategy and so that's embedded in our score cards, you know our remuneration and real visibility and actually the training that has gone on across the bank has been actually a real pull factor from our colleagues as well, so it really is strategic, it's not a CSR project, it's really in the nuts and bolts.

Your second question on the macro environment and what impact that has, I think about it in two ways, at an individual and a business level, climate transition and sustainable businesses and sustainability are important to our customers, the gap that historically has been there has been bridging between I really care about what's happening, how do I practically make a difference at an individual level as a business owner or as a consumer, and we know that from when we launched our partnership with CoGo which we did a Fintech which we put into our App when we ran the pilot, we could see just by giving information into the hands of our customers they made everyday small changes to reduce their carbon footprint.

From a business owner perspective, the report that we did last year called Banking on a Sustainable Recovery that was £175bn I identified. I think if you put it in front of business owners, a real revenue opportunity and a business growth opportunity it makes sense, the big gap has been the how, and that's why we've really focused on practical steps and tools, Carbon Planner, cheaper financing, to really help get the reward side.

So, I think the business opportunity and the imperative for customers, I think the rise in energy prices, has brought in, real sharp focus to people, the cost of energy and I think energy security has become a much stronger motivation, particularly for business owners, I think the cost of energy and how vulnerable we are is very much in the consciousness, so that augments what is already a desire there to do something about it.

And I think like any new horizon, when you're moving onto something, first move advantage is really important, so I think even in our research, your housing research that we did, a year ago, 50% of our consumers, our customers, when they were surveyed about whether they would Retrofit their house, whether they were interested in it, a year ago it was 50%, the one we did last year, had gone up to 68%, our most recent had dropped to 66% so, we've got to bridge the gap and close the green premium, but I think the energy price has just emphasised how vulnerable you are to energy prices and brought an extra dimension into, it's not just about addressing climate, it has practical implications as well.

Alexander Holcroft: Thank you, if we can go to Zoom, we have a question from Aman Rakkar of Barclays. Aman, please go ahead.

Aman Rakkar (Barclays): Hello, thanks very much for the presentation, two questions. One really interested around your, the idea that your embedding climate related risk into your Capital Allocation, which I guess you're imposing your own capital requirements upon your business and related to your assessment of climate risk, which is kind of incongruous to some of the messaging you get from the regulator, the Bank of England's Stress Test, they're at pains to tell you that they don't see Climate Capital requirements as an effective way to finance the transition. So, I was interested for your kind of, high level thoughts on what's the medium term outlook for Climate Stress Testing at an industry level, do you think we ultimately do land to a place where you're getting climate related capital requirements imposed upon banks, because your actions suggest that perhaps you are kind of preparing for that either deliberately or not…?

And the second question was on your mortgage portfolio, your housing stock, interested in your view around the 20% or so of your housing stock with energy, EPC rating EF&G which may never actually get to an EPC rating of C and above, given it's an old legacy stock, what's the long-term outlook for that stock, is that simply a case of the UK government being part of some subsidised solution, are you part of that solution? And isn't that some kind of fairly material, latent risk for your collateral value? Thank you.

Alexander Holcroft: Great thank you, Katie can we start on capital and risk for the first one.

Katie Murray: Yeah absolutely. It's interesting on the position within the regulators. If I look at it, what we can see it comes into our Pillar 3 disclosure, so it's very much around a disclosure aspect that we have to do today. What we know and what history would tell us, is that it generally works it's way to the left at that point, in terms of that and I think, I've had the pleasure of spending a lot of time with different very senior kind of regulators both here and in Europe… and what they would say when you're lecturing to a younger group of post grad students, they would be horrified that it wasn't in your capital already, in terms of that piece and I think it is a transitionary point, but the idea Aman of bringing it into our stress testing, we even spoke about it in the year end around IFRS9 that we'd started the work, is how we bring it into IFRS9. The impact on it in the shorter date is relatively small, in reality on that, but it's a reality of the world that we live in, and when we set our macro-economic assumptions, we need to set them for the world that we live in.

And the reality is that climate change is beginning to impact those assumptions in terms of where we go, muted responses in the first number of years, but you saw from the PRA and the base that they published that as you go into a multiyear basis the impacts become much greater in terms of that, so, I think it would be inappropriate of us not to be considering it fully as part of that stress testing, whether it's around differences in capital charges or what actually happens to some of the growth rates, and actually just test it, play with it, see what you can kind of come up with it, as you go through, so for me it's absolutely the right thing, I have a personal view, it will come into our capital charge in time, won't be this year, next year, maybe the year after that, but I think as we sit here in years to come, it'll be something that will come there because it'll be a real risk and a narrative within the economic macroeconomic factors so therefore it will have to roll through, so we're comfortable to start that journey now and really reflect the realities that we see today, mortgages..

Lloyd Cochrane: On the properties of EF&G I think, there's a number of points to make on there, that's one example of the complexity of the housing stock in the UK, another example of the complexity would be the income levels of customers living in homes at any EPC rating, Alison mentioned earlier that the transition of the housing stock is a public and a private exercise, but there's also an element in some of the regulation that we see already, there's an element where, there's an acknowledgement that some properties, well all properties have got a natural ceiling, they can't improve above a certain level, and also there is a place at which you wouldn't spend the next pound to achieve perfection, the Buy to Let regulations that are out at the moment are putting a cap on the amount of spending to get above a certain EPC level, so I think there is a degree of practicality that is required when thinking about properties of a lower income band and that degree of practicality alongside. Our role as a private organisation and the governments role directly supporting homeowners but also supporting the market with signals means that there is a risk of legacy in some of our asset books but it's not as stark a legacy as I think you were maybe considering.

Alexander Holcroft: Thank you, if we could come over here now please.

Sophie Demare (Federated Hermes): It's been great to hear about your work with clients on coming up with transition plans, this might be slightly a pessimistic question but thinking a few years down the line, if you start to see clients not delivering on those transition plans, can you talk a bit more about what would happen in that situation around any kind of sustainability linked contractual elements being considered for that?

Alison Rose: Well, I think Paul can talk about it, but we have been very clear with those hard to abate sectors and what we call the harmful sectors that we want a credible transition plan aligned with Paris, to the extent that we don't have a credible transition plan, you can see that we have exited exposure, so it really is about working in partnership with our customers, as we've talked about, there's going to be some sectors that are really hard to abate. I often quote the agricultural sector, it's a small part of our lending, but a big part of our emissions, we're not going to stop lending to the agriculture sector, our job is to work with customers and come up with credible plans and also each sector is not going to move at the same level or be able to achieve Zero, it's about the absolute amount of emissions, so we have very open and transparent conversations about credible transition plans, and providing we can see progress, and there's good momentum, you can also see that we also exit exposure if we don't think it works.

I think what's really important is, our strategy is to work with our customers, what you don't want to see is, hard to abate sectors if they are making progress, being removed from the public markets and transparency invisibility, because the ultimate game is to get the emissions out of the atmosphere, that what we're all aiming to do, so we're very clear and very transparent about that.

Katie Murray: I think Alison in terms of will you do any ratcheting in terms of the sustainable, the price of the loans that we already see already, there's incentivisation in some of our loans, I'm sorry I'm trying to remember the number of how many there are, but its relatively significant already… in terms of how we actually build that in already, so as you hit certain parameters, then actually you could see some benefit in that.

Paul Thwaite: We have a book of sustainability linked loans where there are ratchets already depending upon the progress or lack of progress that underlying clients would make, so in effect it does bite if there isn't the progress that is being committed to.

James Close: Today, the government published its green finance plan which will look at the timescale over which transition plans will become complier explained versus mandatory, so I do feel there's a sense of direction here that's going to perhaps more optimistic than the view that you've implied.

Alison Rose: I think we're in the optimistic camp, practical and optimistic.

Alexander Holcroft: Thank you.

Kimon Demetriades (AllianzGI): Maybe just following on a point around transition plans. If you can to the extent that you can, can you maybe provide a bit more information around how you actually assess the credibility of transition plans, I think this is a challenge, a lot of investors are facing in a different context and also do you think this could be a source of competitive advantage given you've got a number of peers moving in this direction, thinking about that, so is there something there which maybe if done better, there's opportunity for Natwest as well?

James Close: I can start yeah, well I think we learnt a lot from the work that we did with the coal and the oil and the gas sector, where we applied temperature alignment principles to give us views on the credibility of transition plans. Now, we're not going to do that for every single customer, but the principles I think apply quite well and enable us to think about the starting point from an emissions perspective as well as the direction of travel and enable us to evaluate that over a period of time. And I do think it is a source of comparative advantage because we will understand our customers better, we will also have a better way of pricing risk as we've talked about before and we'll be able to anticipate the impact of policy on different market segments and different customers within those sectors.

John Teahan (Redwheel): I'd just like to go back to mortgages, the green mortgage you have offers a reward for somebody who has bought an already highly rated house, can you see, and we all know the challenges, but can you see mortgages develop where there's reward for improving houses? If there's an economic justification for your book to make that actually real if you like?

Lloyd Cochrane: Again, short answer, yes. I think the green mortgage, the A&B discount is a useful price signal, it's a useful encouragement for customers to move their properties themselves, the bigger opportunity from a growth perspective and the bigger need from a consumer perspective is as you say to fund those retrofits, I spoke earlier about the need to inform customers and give them a tool to make that process simpler, there's also the need to incentivise that and so yeah, the bigger, longer term funding tool for us in the residential mortgage space is retrofit funding and we're aiming to have something live by the end of this year that will do that for customers. Links to, cos it's not just funding, linked to the platform that makes the process much easier than it is today.

Alexander Holcroft: Can we come to the front here please, thank you.

Sabahat Salahuddin (Blackrock): Thank you for the very detailed insightful presentation. I think for me there are two questions, so the first is, there's obviously a lot of work that has happened and I would be keen to understand what is coming up next, so what should we look forward for in 2023 and your main focus areas, and secondly, just thinking of all the work that you've done with PCAF and with data and there are still challenges on data and the quality, do you see the actual estimates that you've done evolving as data improves and what kind of margins are you thinking these would move in, in the future?

Alison Rose: James, you can do PCAF, it's your favourite topic. Look lots coming up, we're very, hopefully what you can see from the plan is we're giving you real transparency of our ambition on the climate transition plan and also the areas of which are within our control and where we will need policy help, we're very active in working with government to help find the answers, but as Lloyd mentioned, what you'll see and I talked a little bit about that just before our results, in our climate day around some of the partnerships that we're looking to develop to help really link the supply/demand side and make it much easier for customers, both to get the financing and the support, and for businesses to unlock the revenue opportunities. So, increasingly you'll see us talk about the partnerships, the practical support that will really trigger the demand supply.

Lloyd Cochrane: One point to build on, I realise it's implicit in my mind, but not explicit. As I talk in my day job about helping homeowners get through that transition, the same tools, the same support, is needed for building owners who happen to be businesses, so we see that working across the organisation, the same partnerships are equally relevant for business customers as they are for homeowner customers. Again, that's implicit in everything we do, but I should have made that more explicit.

James Close: I think on the data and the PCAF scores, I'll refer you to Katie's previous answer which we take our disclosures very seriously. So, and we're trying to be as transparent as we possibly can about that, so we'll learn over time, what that means and I think, we'll be disclosing that in a way that hopefully is helpful to everybody to come to a judgement on where we are and where we think we're going to be over a period of time.

Alison Rose: I mean, I think as the data gets better and better and we get more insight, that will accelerate the insight. We've got Carbon Planner which is the tool that we make available, a digital tool, free to SME's is really to help them map and see what's in their supply chain, which allows them to collect data mainly to help them find the solutions but it gives us more data and insight into their footprint, so, the tools that we provide also give us better insight and it's giving our customers better insight so there is a kind of circular benefit.

Alexander Holcroft: Great, I'm afraid that brings us to the end of our allotted time so, just for me to say thank you very much indeed for your attendance and for your participation, there is outside some tea and coffee and the panel will be outside if you would like to continue any of these conversations further but thank you very much indeed.