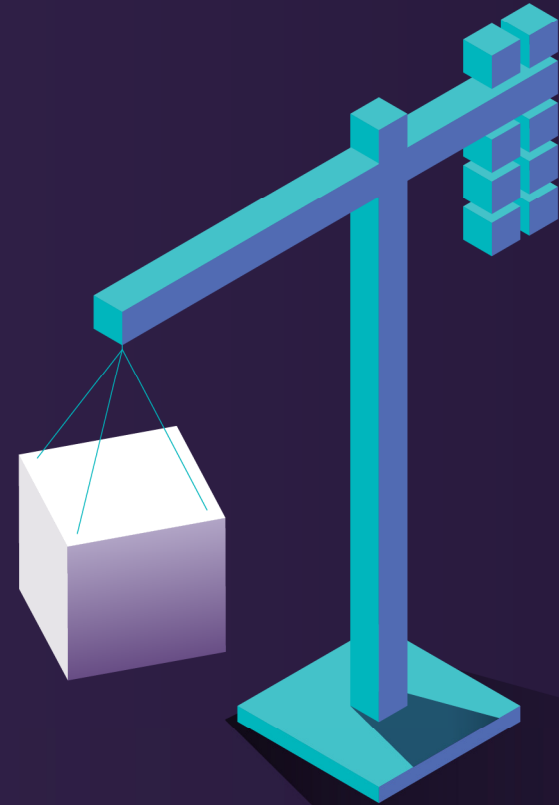


Financing Energy Efficiency – Northern Housing Consortium

23 September 2020

Marcos Navarro – Director – Housing Finance &
ESG Lead



NatWest

[natwest.com](https://www.natwest.com)

NatWest Purpose & Commitment to the Social Housing Sector

Climate change is one of the biggest challenges of our lifetime, and our role, as one of the biggest lenders and biggest supporters of families and businesses across the UK is, we need to practically help transition the UK in our role as a leading relationship-led bank

NatWest currently provides c. £12bn of loan commitments to the sector and has refreshed its commitment to the social housing sector with £3bn of new funding available over the next three years that can support the development of around 20,000 new homes and improve living conditions in existing properties. We are committed to supporting the delivery and maintenance of housing in the UK, which is vital to the economy and people and families who rely on affordable housing

ESG and socially responsible investing aren't new concepts but in recent years this topic has been climbing up the agenda list for many organisations, including housing associations

Covid-19 has shown how committed the public and investors are to the wider ESG agenda. The public have become more alive to the importance of addressing social issues, as well as environmental issues. Now more than ever people realise that communities rely on each other and the pandemic has brought us closer together, as humans and as communities

We're setting out a new ambition to be a leading bank in the UK & RoI helping to address the climate challenge; by making our own operations net carbon zero in 2020 and climate positive by 2025, and by driving material reductions in the climate impact of our financing activity. We're setting ourselves the challenge to at least halve the climate impact of our financing activity by 2030 and intend to do what is necessary to achieve alignment with the 2015 Paris Agreement

Furthermore, the UK government's target to bring all greenhouse gas emissions to net zero by 2050 will also have a direct impact on real estate and housing associations



Alison Rose (CEO): “we are building a purpose-led bank to champion potential, helping people, families and businesses to thrive”



Climate Commitments



A leading bank in the UK & RoI helping to address the climate challenge

At least halve the climate impact of our financing activity by 2030



- **Stop lending and underwriting to major oil & gas producers** unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021
- **Stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal;** unless they have a credible transition plan in line with the 2015 Paris Agreement in place by end of 2021
- **Full phase-out from coal by 2030**

Championing climate solutions and accelerating the speed of transition



- Support our UK & RoI mortgage customers to become more energy efficient with an ambition that **50% of our mortgage book is at or above EPC equivalent rating of C** by 2030
- Collaborate cross-industry, and create products and services to enable customers to **track their carbon impact**
- Support the drive to decarbonise UK transport through our **Future Mobility Group**
- **Coutts Asset Management have set a target to reduce the level of carbon intensity** for the equity component of their portfolios by 25% by the end of 2021
- Additional **£20bn** funding and financing for Climate and Sustainable finance between 2020 – 2022
- **25% or more** places at our **Entrepreneurial Hubs** reserved for businesses whose core offering supports sustainable environmental activities

Climate positive by 2025 for our own direct operations



- Achieve net zero carbon in 2020
- Maintain zero waste to landfill accreditation across UK & RoI
- **Eliminate single use plastics** from our buildings
- **Reduce our paper consumption by 70%** against the 2025 baseline

Climate Group Commitments

- EP100: Improve energy productivity by 40% by 2025 from 2015 baseline (in line with sciencebased target)
- RE100: Use renewable electricity across our global operations
- EV100: Transition all company owned-cars to electric and 15% of space in core offices to be charging points by 2025

Embedding climate into culture and decision making

- **Quantify our climate impact** and set **sector-specific targets** for emissions reduction by 2022
- **Revise executive remuneration** to reflect achieving climate targets

We are determined to not just play our part, but to lead on the collaboration and cooperation that is so critical to influencing the transition to a low carbon economy.

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Why is Sustainability important for the real estate sector and Natwest?

There is growing public interest in the broader sustainability agenda, both in the UK and globally, and this is starting to shape consumer behaviour in terms of the brands and products that people are willing to align themselves to. Alongside this, as part of the UK's commitments as a signatory to the 2015 Paris Agreement, the UK has a stated ambition to become net zero by 2050, and the risks posed by climate change are now influencing the regulatory landscape, with two examples being the increasingly stretching energy efficiency performance standards for buildings (MEES regulation) and the proposed climate change related stress testing for financial institutions

The Real Estate sector, together with its supply chain, has a huge part to play in the UK reaching net zero by 2050, with 40% of the UK's carbon footprint attributed to the Built Environment, and construction activity generating over 30% of the UK's total yearly waste, with the majority being sent to landfill

Climate change is defined as a change in global or regional climate patterns attributed largely to the increased levels of atmospheric carbon dioxide produced by the use of fossil fuels

The built environment impacts climate change through its carbon footprint. The carbon footprint of the built environment is complex to assess as it includes the impact of:

1. The processes connected to developing and constructing the environment, including the associated supply chain and resource use (such as the production and transportation of raw materials e.g. cement)
2. Operating the physical assets post construction (such as lighting, heating and cooling a building)
3. The activities involved in living and working in this environment (such as the running of IT equipment, cooking etc)

Improving energy efficiency is key to reducing the carbon footprint of the built environment. Much of this will need to be achieved by decarbonising existing building stock as 80% of the buildings that will be in operation in 2050 have already been built.

As well as looking to reduce the carbon footprint, another key consideration connected to the built environment and climate change is ensuring that buildings and infrastructure are fit for the future by being built with climate resilience in mind.

Sustainable energy funding and financing:

Provide lending and wider financing to customers of all sizes for their sustainable energy projects encompassing various low carbon generation and energy efficiency technologies, low carbon vehicles and helping clients raise funds through green bonds, green loans and green private placements.

Products offered:

- Asset finance (provided by Lombard, one of our brands)
- Structured asset finance
- Project finance
- Support for infrastructure and renewable energy funds
- Green and sustainable bonds
- Green and sustainable private placements
- Sustainability linked loans

Note:

(1) includes financing of solar, onshore wind, offshore wind, hydro, biomass, anaerobic digestion, LED lighting, energy from waste, smart metering, offshore transmission operators (OFTOs), interconnectors, heat pumps, air and ground source heat pumps, Gas to Grid Plants, Combined Heat & Power (CHP) and alternative fuelled/low-carbon vehicles including hybrid buses.

In addition to the above, we can support customers through:

- RBS Social & Community Capital - our independent charity that runs a fund to help social enterprises who have been declined a loan from a mainstream bank. The project should be financially sustainable and deliver social impact to the local and wider community.
- Energy audits – a service to help customers understand how they could reduce their energy costs or generate their own renewable energy. This service is available to all customers with an energy spend over £10,000 a year or with more complex energy requirements. There is a cost associated with this service.



Sustainability Linked Funding

Environmental	Social	Governance
Energy consumption/efficiency	Human rights	Quality of management
Carbon emissions	Indigenous rights	Data protection
Other pollution	Child and forced labour	Board independence
Use of clean technologies	Working conditions/workplace/flexible working	Conflicts of interest
Waste management	Diversity & Inclusion	Executive compensation
Natural resource use	Employee engagement/ support at work/PDPs	Transparency & disclosure
Biodiversity	Community Engagement	Shareholder rights

NatWest supports ground-breaking social loan for Suez



Bank Group

NatWest

BNP Paribas

Credit Agricole

UniCredit

Santander

Deal Information

- Suez, French based utility company operating mostly in water treatment and waste management sectors, has put in place the first ever social syndicated loan facility.
- In July 2020 five relationship banks of the Company participated in a new EUR 100m social RCF. Proceeds under the facility will be solely used towards financing or refinancing eligible social projects that address impacts of the Covid-19 crisis.
- Suez has long term comprehensive sustainability strategy and is committed to be a leader in sustainable resource management. By putting in place this innovative facility, Suez reconfirms commitment to the strategy with all its stakeholders.
- Suez intends to use this facility for purposes including the following:
 - ❖ Charitable foundations committed to deliver solidarity actions including the *Fondation SUEZ*
 - ❖ Corporates, customers or suppliers negatively affected by Covid-19 and the lockdown of the economy
 - ❖ Appropriate medical research
- Suez already has in place a EUR 2.5bn sustainability linked RCF signed in 2019.

“This transaction once again demonstrates SUEZ commitment to play an active role in its communities around the world. The current times requires solidarity and specific support. Proceeds of this innovative €100m financing will contribute to mitigate Covid-19 impacts by providing liquidity to those who most need it at a time when extraordinary circumstances are putting pressure on stakeholders in our ecosystem.”

Julian Waldron, Group Senior Executive VP in charge of Finance

Key emerging social themes



Health and well-being

- Many companies have responded to ensure workers, especially those in essential industries, have equipment and space needed to operate safely
- Beyond physical protections, many companies are also improving healthcare options and benefits to better cover peoples' needs; approaches include telehealth, mental health counselling, and child care



Work is being reallocated

- Millions of people have been furloughed or made redundant
- Hourly wage, service workers, people with children, and minorities appear to be disproportionately affected.
- There will likely be winners and losers in the redistribution of work as the recovery progresses.



The way many people work may change permanently

- According to polls, many people are successfully working from home and saying they will prefer to work from home as much as possible even after public health restrictions are lifted.
- Employers are starting to think differently about working styles and benefits, with greater flexibility becoming a higher priority.



Supply chains will need to be de-risked

- Simplified, transparent supply chains are likely to become critical to building resilience for such future events
- This will mean companies will need to increasingly de-risk and close down



Cybersecurity and privacy defences will increase in importance

- A sharp increase in employees working remotely and customers shopping online increases risk levels for data and privacy breaches

Social Projects

1. Roadmap for Sustainable Development

- ✓ Company develops and draws up framework demonstrating ambitions towards sustainable development including social strategy
- ✓ Company identifies priorities and specifies commitments within the sustainability strategy together with the action plan to be achieved

2. Measuring progress and achievements

- ✓ Measure and track progress in achieving the specified commitments
- ✓ Determine disclosure of targets and progress (e.g. annual report, sustainability report, website) and if verified by a third party



Social
Strategy

3. Eligible Social Projects

- ✓ Identifying eligible social projects in line with social priorities and commitments
- ✓ Eligible projects may include (but are not limited to) donations, support to customers and suppliers, support to local community etc.

4. Facility Agreement

- ✓ Introduce definitions around eligible social projects, purpose of the facility and additional information undertakings
- ✓ Agreed form compliance certificate included in the facility agreement and delivered on a regular basis that may include the following elements: loan amount, project name, eligible social category and description, project relevance, etc.



Loan
Execution

5. Funding Eligible Social Projects

- ✓ All amounts borrowed under Social RCF will be applied towards the financing or refinancing of eligible social projects as defined in the facility agreement

6. Compliance Certificate

- ✓ Company will deliver a compliance certificate in respect to loans drawn under the facility with a description of eligible projects (typically on a semi-annual or annual basis) with a list of projects financed over the period
- ✓ Lenders will evaluate the projects financed and will ensure that the funding is in line with the social purpose as defined in the agreement



Project
Monitoring

NatWest Social / Green Bonds

In November 2019 we were proud to issue the first exclusively Social Bond under ICMA's Social Bond Principles by any UK financial institution

We recognise the impact that the COVID-19 pandemic has had on businesses and their employees across the UK. We remain the largest supporter of UK business, and we continue to work with customers across the UK to help them transition out of this difficult time

In addition to the Government lending schemes, we've also announced £5bn of Working Capital Support for those businesses that will see disruption as a result of the pandemic

We calculate ~6,900 FTE jobs have been created in some of the most deprived parts of the UK, as determined using a standardised input-output methodology and based on the allocation of the bond proceeds to our lending to small and medium enterprises (SMEs) as defined in our Framework

Ahead of issuance, Sustainalytics confirmed the alignment with the International Capital Markets Association's (ICMA) Social Bond Principles and noted the Group was "well positioned to issue green, social and sustainability bonds."

The full proceeds of our inaugural Social Bond have been allocated to loans to UK SMEs in the bottom-30% of our loan book, according to unemployment claimant rates (UCP) and gross value added per head (GVA). The relevant areas correspond to some of the most deprived parts of the UK

Asset eligibility has been maintained on a monthly basis, utilising our in-house selection methodology. Full details are set out in our Framework

Since issuance, the proceeds have been fully allocated to a pool of loans including, on average, more than 2,750 SMEs across Scotland, England, Wales and Northern Ireland. The number of borrowers fluctuates as the pool is maintained each month

[Link: https://investors.natwestgroup.com/fixed-income-investors/green-social-and-sustainability-bonds/gss-bonds](https://investors.natwestgroup.com/fixed-income-investors/green-social-and-sustainability-bonds/gss-bonds)

[Social Bond Interim Impact Report: https://investors.natwestgroup.com/~media/Files/R/RBS-IR-V2/green-social-and-sustainability-bonds/NatWest-Group-Social-Bond-Interim-Impact-Report.pdf](https://investors.natwestgroup.com/~media/Files/R/RBS-IR-V2/green-social-and-sustainability-bonds/NatWest-Group-Social-Bond-Interim-Impact-Report.pdf)

[Green Bond Report: https://investors.natwestgroup.com/~media/Files/R/RBS-IR-V2/green-social-and-sustainability-bonds/rbs-allocation-190529.pdf](https://investors.natwestgroup.com/~media/Files/R/RBS-IR-V2/green-social-and-sustainability-bonds/rbs-allocation-190529.pdf)

Sustainability & ESG activity across the wider market

The Government is unveiling new initiatives and has pledged its commitment to a green recovery agenda. This includes a £1.3bn investment fund which aims to deliver 45,000 new homes and create up to 85,000 jobs as part of its green economic recovery plans. The proposals include 'strict accreditation rules for tradespeople involved in the Government's £2bn Green Homes Grant scheme to ensure homes are of the highest quality' which means they include green insulation and appliances. The question is whether this will replace the Government's previous manifesto promise to provide £3.8bn to decarbonise social housing stock over 10 years, surely not?

During the pandemic the Welsh Government (WG) realised "like never before" the importance of warm, secure and affordable homes. If one thing is certain on the back of the pandemic, it is that homelessness is likely to increase. At the start of the pandemic WG allocated £10m to help the homeless self-isolate, but have now increased this fund to £40m to help prevent homelessness in the first place. WG has also allocated £45m towards its Innovative Housing Programme which will provide funding for the building of new carbon-neutral social homes using modern methods of construction. All good news, but is this nearly enough?

At a more local level, Warrington Borough Council launched a green bond that will see residents invest in the region's renewable energy and energy storage sectors, as it works to deliver a carbon-neutral town by 2030. It will be interesting to see if residents are prepared to invest in their local authorities to directly influence environmental and social changes, especially given more than half of the UK's local authorities had made climate emergency declarations pre-pandemic, with many setting net-zero targets ahead of 2050

John Gandolfo, VP & treasurer IFC, World Bank Group stated at the start of September that social bond issuance has totalled \$43bn so far this year, compared to \$17bn during 2019. It has been suggested that a large percentage of these funds has already been allocated to mitigate against the impact of Covid-19

Sustainable investment funds have also proved slightly more resilient during the summer months compared to their conventional fund counterparts due to the mindset of a typical sustainable fund asset-owner who is often focussed on longer-term return and the non-financial impacts of their investments. High profile asset managers including Blackrock and Robeco have launched new green and ESG portfolios in recent weeks

As part of a \$10bn debt offering, Google's parent company Alphabet has issued \$5.75bn in sustainability bond which they believe is the largest sustainability or green bond by any company in history. For projects to receive support from the bond, they must fall into one of the eight priority categories identified by the company including: energy efficiency, renewable energy, green buildings, clean transport, circular economy and design, affordable housing, racial equality, and support for small businesses in the wake of Covid-19

ESG Reporting

Whilst it's clear there is more interest from organisations and investors in ESG strategies, there remains a lack of standardised ESG data and reporting methods. The housing sector, like other sectors, often struggles to articulate and report on ESG activity. I'm therefore pleased that NatWest has supported the "UK Social Housing: Building a Sector Standard Approach to ESG Reporting" published by The Good Economy. Whilst the way organisations report on ESG will vary and continue to evolve over time, this is a great place to start and will help housing associations when reporting to stakeholders.

It is essential to increase the number of early adopters to this standard of reporting before the paper is published in October to ensure it is recognised as a sector wider approach. By standardising and improving reporting methods, organisations will be able to increase the level of investment into the sector; from banks, traditional and non-traditional investors.

It is difficult to summarise all of the UN SDGs that are relevant to the housing sector, some are more obvious than others and it is important for housing associations to understand what role they can play in addressing the challenges our communities face.

Optivo published its first ESG Summary Report for investors and stated that whilst that they "make a direct impact and can measure our performance against ten of the seventeen UN development goals and also report annually on the other seven indirect impacts".



Good News

Virus Boosts Renewables

Wind and solar doubled their share of the global power mix over the past five years. The renewable energy sources made up almost 10% of electricity generation in most parts of the world in the first half of 2020, according to an analysis released in August by U.K. environmental group Ember. Grid operators relied more on less expensive renewable energy sources as shutdowns to contain the novel coronavirus reduced demand for power.

BBC NEWS

Follow

Britain goes coal free as renewables edge out fossil fuels

BY JUSTIN ROWLATT
9 JUNE 2020 (UPDATED 10 JUNE 2020) · 4-MIN READ

Sun From Down Under

Australia granted “major project status” to an ambitious A\$22 billion (\$16 billion) plan to export power from the world’s largest solar farm and battery system in the country’s Northern Territory to Singapore and Indonesia via a 3,700 km (2,300 mile) undersea cable. The project could supply a fifth of Singapore’s power needs, helping to reduce the city-state’s reliance on natural gas imports.



BBC NEWS

Follow

GE: Industrial giant will stop building coal-fired power plants

21 SEPTEMBER 2020 · 1-MIN READ

In a dramatic reversal, one of the world's biggest makers of coal-fired power plants is to exit the market and focus on greener alternatives.

US industrial giant General Electric said it would shut or sell sites as it prioritised its renewable energy and power generation

Next Steps

As some of the largest charities, landlords, and organisations in the UK, housing associations must play a leading role in making communities and the world we live in a better place, for both current and future generations

The Housing, Communities and Local Government Committee said at the start of August that there is evidence of the need for 90,000 socially rented homes each year. Creating sustainable social housing must be part of the UK's recovery strategy particularly as the pandemic has highlighted social inequalities across our communities. In addition to supporting infrastructure and creating jobs through building projects, new and improved social housing will benefit some of those who have been hit hardest by the pandemic

Whilst it often feels like one key event replaces another. ESG and impact investing is here to stay, and organisations should continue to be considering ways to articulate their achievements and strategies to both internal and external stakeholders. Lockdown has not shutdown this agenda, if anything it has put an additional spotlight on both governments' and organisations' ESG objectives

I'm happy to answer any questions that you might have

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