

RBS Sustainability Briefing

Our financing of the energy sector

About this document

RBS is a UK-based banking and financial services company, headquartered in Edinburgh.

RBS provides a wide range of products and services to personal, commercial and large corporate and institutional customers through its two main subsidiaries, Royal Bank of Scotland and NatWest, as well as through a number of other well-known brands including Ulster Bank and Coutts.

This report is the fifth 'Our financing of the energy sector' briefing that we have produced since 2010. Our aim remains the same: to provide enhanced disclosure on our lending to the energy sector in the context of sustainable development.

This report provides information on our lending to the energy sector from 1 January 2014 to 31 December 2014. It includes trend analysis using data from previous years to enable the reader to better understand our continuously evolving position with respect to energy lending. We have also expanded the scope of the report to include our exposure to the Coal Mining sector for the first time this year.

Our intention is to continue to set a benchmark for financial services disclosure around this topic in line with our sustainability reporting process: rbs.com/sustainable



Working with Trucost

2014 is the fourth consecutive year we have used data from Trucost to help us carry out the analysis for parts of this report. We use this data to analyse the activities of our energy clients. Trucost are one of the world's foremost environmental data experts and providers of this information.

Note on data

We have taken all reasonable steps to ensure the accuracy and completeness of the data contained in this report. However, in some cases there are gaps in the data available which means we have had to make use of assumptions, approximations and/or information provided on a voluntary basis that has not been independently verified.

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1. Key findings

General lending:

Across RBS, approximately 2.9% of our total lending went to the Oil & Gas and Power sectors.

Of this, 1.9% was to the Oil & Gas sector and 1% was to the Power sector which uses a mix of gas, nuclear, coal, oil and renewables.

This year for the first time we are also including disclosure on our lending to the Coal Mining sector which accounted for less than 0.05% of our total lending.

Lending to specific energy projects:

Overall, 67% of our 2014 structured financing in the energy sector was to renewable energy and energy efficiency projects, with the remainder to other sectors.

In keeping with previous years, we provided more finance to wind projects (24%) than any other type of renewable energy.

According to IJGlobal, a leading business intelligence provider, RBS has been the largest UK renewables project financier over the period 2011-2014 by both number of transactions and total value.

Client carbon intensity:

Using data from Trucost, we estimate that our top 25 Power and Coal Mining clients are significantly less carbon intensive than the industry average by 40% and 42% respectively.

While our overall Oil & Gas client group has become more carbon efficient, our top 25 Oil & Gas clients are 13% more carbon intensive than the Trucost industry average for Oil & Gas companies in 2014.

Client water use intensity:

Using data from Trucost, we estimate that our top 25 Power client portfolio is slightly (3%) more water intensive than the industry average.

Our top 25 Oil & Gas and Coal Mining clients are less water intensive than the Trucost industry average by 19% and 16% respectively.

2. Our view on energy financing disclosure

We recognise that climate change and energy are two of the biggest challenges facing the world now and over the coming decades. The generation and use of energy is the primary source of manmade greenhouse gas emissions worldwide – predominantly through the burning of fossil fuels – and is therefore of key importance to tackling climate change.

As a provider of finance to the energy sector, we know that we have a part to play in helping that sector – and all users of energy – in addressing these challenges. Rebuilding trust in our organisation depends on us serving customers responsibly and being open and transparent about our approach to major issues like energy and climate change.

The shape and size of RBS is changing significantly. In February 2014 we announced that we would be refocusing our business on the UK & Western Europe, reducing our global presence from 38 countries to approximately 13. This change means a significant reduction in our lending to customers in other parts of the world between now and 2019, including those involved in energy generation and fossil fuel extraction and production. We will continue to report our changing exposure to these sectors over the coming years through reports such as this and mechanisms like the CDP and DJSI.

Throughout these changes to our business, we remain committed to building on our position as a leading UK bank for financing renewable energy and energy efficiency projects and installations. We have developed a range of finance and support services for customers that can help them with anything from a large scale renewable energy project to an energy efficiency retrofit of a small business. We think that helping our customers save money and cut carbon will be of value to them and help the economy as a whole move towards a low carbon future. On renewables specifically, we are pleased to say that over the period from 2011-2014 we remain the largest UK renewables project financier, according to IJGlobal. We will also continue our support for the wider sustainable energy sector including active participation in industry round tables and sponsoring knowledge sharing industry events.

Underpinning all our financing to the energy sector are environmental, social and ethical (ESE) risk policies that govern our lending to key parts of the sector such as Power, Oil & Gas, and Mining & Metals. These policies require that additional checks are made to ensure that clients have procedures in place to mitigate adverse environmental and social impacts. In certain circumstances, these policies also prevent the provision of finance where the impacts are considered too high. More details about our ESE risk policies and Equator Principles implementation can be found at rbs.com/sustainable/policies.

Finally, we are also working with a number of external partners and industry forums to help develop better methodologies to assess carbon risks in lending, and report them more accurately. Although we have made a good start, we know there is more we can do to help promote more transparency in energy financing across the finance industry.

3. About RBS energy financing

3.1 Our lending to the energy sector

RBS is predominantly a deposit and lending bank. We take money in deposits and other sources and lend it in the form of loans. For the energy sector, as with other sectors, we provide loans and other banking services (such as overdraft and money transmission services) but we do not usually 'invest' in energy companies or take ownership stakes in them. The money we have lent to the energy sector is continually being repaid and re-lent.

The majority of our lending to the energy sector is in the form of general corporate lending, which isn't usually tied to any specific use or project. When we provide general corporate lending, the client can make use of it in a variety of ways (for example by investing in their facilities or operations, purchasing other businesses or paying other costs). Much like the provision of a loan to a personal customer, a bank is restricted under these circumstances in stipulating how the loan is used, provided the client meets its requirements for the credit risks they represent.

We also offer structured finance for specific energy projects in the UK, Ireland and US where we know what the funds will be used for. These include wind farms, power stations and solar installations. This type of lending is usually done as part of a group of banks who all lend to the same project. The repayment terms of the loan tend to be more closely defined, usually involving a source of cash-flow identified at the outset (e.g. earnings from the sale of electricity), and the repayment period is generally longer, over 10 years in some cases.

RBS has a range of policies and procedures in place for the Power, Oil & Gas, and Mining & Metals sectors to ensure we assess the environmental, social and ethical risks associated with specific clients and projects.

More details of these policies can be found at:

[rbs.com/sustainable/policies](https://www.rbs.com/sustainable/policies)

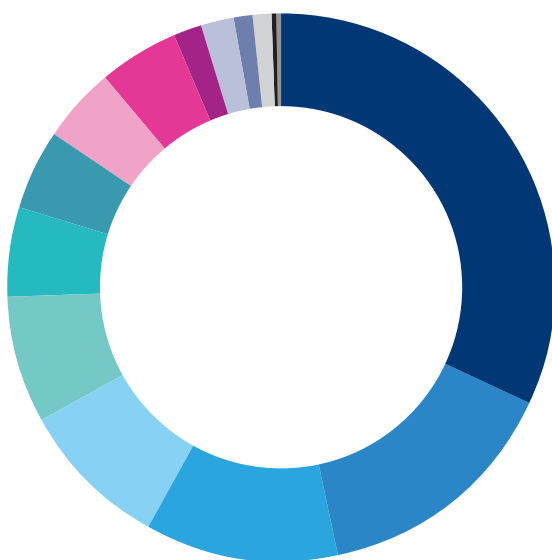
3.2 'Oil & Gas', 'Power' and 'Coal Mining' terminology

Throughout this document, we refer to the three main parts of the energy sector as 'Oil & Gas', 'Power' and 'Coal Mining'. These three terms are how most large banks (including RBS) classify their energy sector clients. The Oil & Gas sector primarily focuses on hydrocarbon extraction, production and distribution, whereas the Power sector focuses on electricity generation, transmission and distribution. Most renewables activity takes place within the Power sector, although some Oil & Gas and Coal Mining companies do have renewable energy operations. The Coal Mining sector focuses on deep coal mining, opencast coal working as well as mining and agglomeration of lignite.

4. Energy lending as a proportion of our total lending

Around 2.9% of our total lending went to the Oil & Gas and Power sectors in 2014. This year for the first time we are also providing disclosure on our lending to the Coal Mining sector which accounted for less than 0.05% of our total lending. In comparison, 32% of our lending was committed to personal customers and 11.6% to the property sector, as the table and chart show.

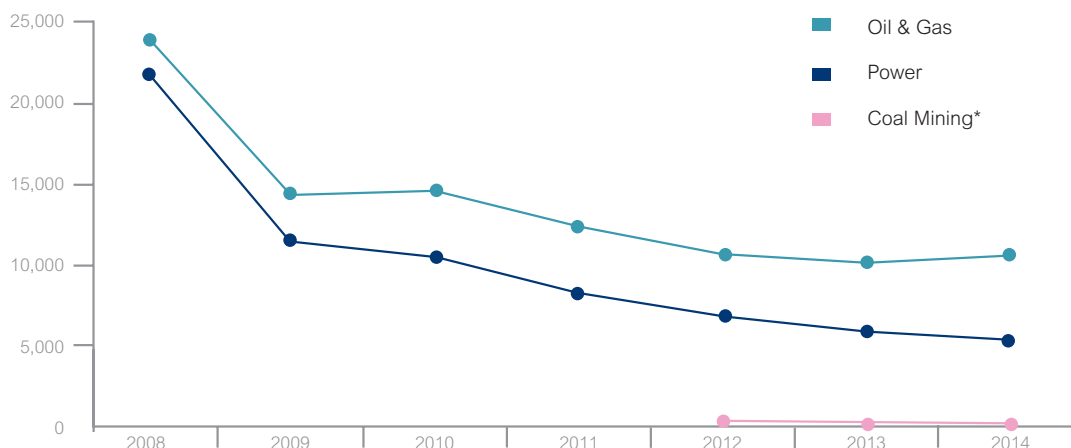
Total RBS lending to all sectors, 2014
(by Credit Risk Assets)



Total RBS lending to all sectors		
Credit Risk Assets at December 2014	(£m)	Percentage of total lending
Personal	180,748	32.0%
Sovereigns & Quasi Sovereigns	82,364	14.7%
Property	64,981	11.6%
Other financial institutions	49,922	8.9%
Banks	41,567	7.4%
Transport	29,494	5.2%
Services	26,748	4.8%
Retail and leisure	25,684	4.6%
Manufacturing	25,438	4.5%
Oil & Gas	10,672	1.9%
Telecoms, media and technology	10,509	1.9%
Water and Waste	5,524	1.0%
Power	5,349	1.0%
Mining & Metals	2,848	0.5%
Coal Mining	217	<0.05%

The chart below shows that on average, our lending to the Power, Oil & Gas and Coal Mining sectors have either decreased or remained the same since 2012.

Changes in lending to the Power, Oil & Gas and Coal Mining sectors, 2008 - 2014
(by Credit Risk Asset (£million))



*The data is only available for the period 2012 - 2014

5. Lending to specific energy projects

Our structured finance teams provide loans to specific energy projects such as renewable energy facilities. Due to the scale of these transactions, often a group of banks will be involved in the financing, each providing a proportion of the loan and therefore taking a share of the risk.

We have categorised our lending to different types of energy projects. The table and chart below show the breakdown by technology type and changes in our structured finance lending from 2012 to 2014 in percentage terms.

During 2014, renewable energy and energy efficiency projects remained the highest proportion of all structured finance transactions in energy. Renewable energy projects took up 67% of our structured financing in the energy sector with the remainder to other sectors.

Of the renewable energy and energy efficiency projects financed, we provided more finance to wind projects than any other type of renewable energy. In the UK, more than half of our lending to energy projects was to renewables.

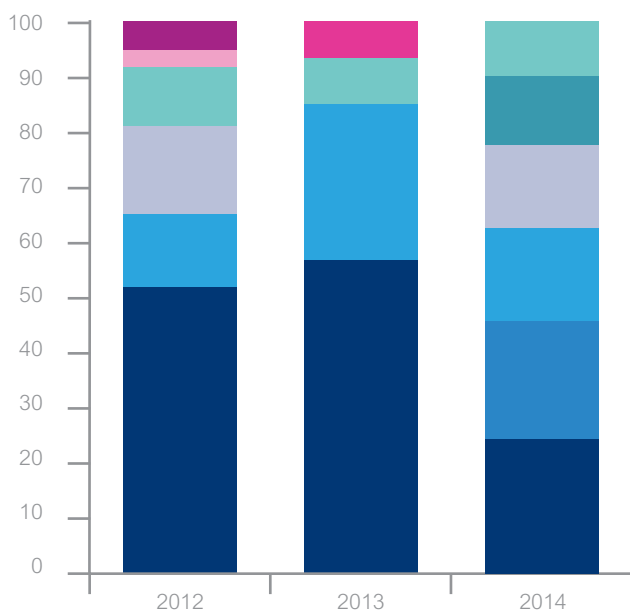
According to IJGlobal, a leading business intelligence provider, RBS has been the largest UK renewables project financier over the period 2011-2014 by both number of transactions and total value.

We also supported new developments in the UK Renewable Energy Funds market. RBS' Financial Institutions Group supported the majority of the UK's new listed renewables funds, providing sector expertise and helping customers to identify financial solutions that match their specific needs. This new sub-sector of the market was fuelled by RBS structuring facilities, which in turn supported the funds in raising around £1.6 billion of new capital from the equity markets for investments in the low-carbon economy.

To understand and manage the social and environmental risks inherent in project financing, we have an environmental, social and ethical (ESE) risk management framework in place and have adhered to the Equator Principles since their inception.

More details of our approach can be found in our sustainability reporting at: rbs.com/sustainable/policies

RBS energy structured financing, 2012-2014
(% split by type of energy project)



RBS energy structured financing, 2012-2014
(% split by type of energy project)

	2012	2013	2014
Wind	53	57	24
Smart metering	0	0	21
Oil	13	29	17
Combined cycle gas turbine	15	0	16
Biomass	0	0	12
Solar	13	8	10
Fuel cell	2	0	0
Gas fired	0	6	0
Short term operating reserve	4	0	0
Transmission	0	0	0

6. General lending to the Power sector

In addition to lending to specific energy projects, we also provide general lending to Power companies. These companies are primarily involved in the generation, transmission and distribution of electricity.

This lending is not tied to specific projects, which means we are generally unable to associate it directly with the activity of our clients. However, using data provided by Trucost and our own research, we have analysed the spread of activities, measured by revenue, that our top 25 Power clients are involved in.

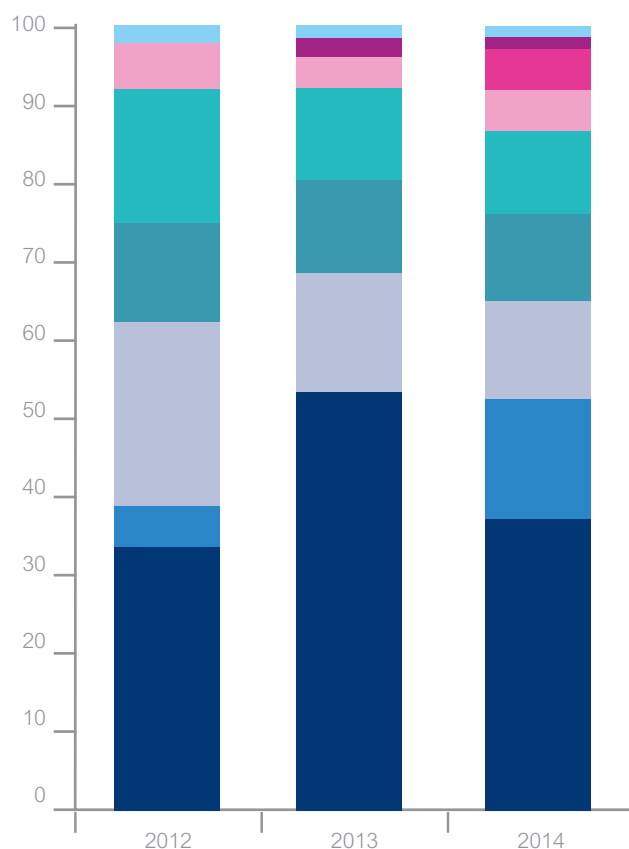
Almost all of these Power companies are involved in a range of different activities and generation types.

The table and chart below show that our top 25 Power clients draw most of their revenue from gas and electricity distribution, followed by other business activities (e.g. miscellaneous professional, scientific and technical services), and nuclear power generation. The coal power generation activities of our top 25 Power clients account for 11% of their revenue, down from 18% in 2012.

6.1 Changes to our Power sector clients' activities over time, 2012 - 2014

Power sector activities, 2012-2014

(top 25 Power clients, by percentage of revenue)



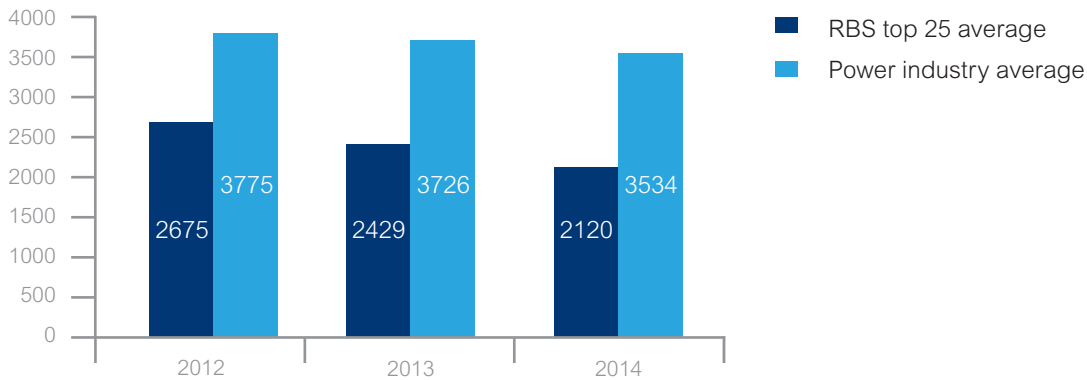
Power sector activities (top 25 Power clients, percentage of revenue)

	2012	2013	2014
Gas and electricity distribution	34	53	38
Other business activities	5	0	15
Nuclear power generation	23	15	13
Gas power generation	12	12	11
Coal power generation	18	12	11
Renewable power generation	6	5	6
Extraction, production and manufacturing	0	0	4
Other electric generation and transmission	0	2	1
Petroleum power generation	2	1	1

6.2 Power client carbon intensity

We have used Trucost's Portfolio Analyser Tool to calculate the carbon intensity of our top 25 Power clients. This tool calculates carbon intensity using tonnes of carbon dioxide equivalent (CO₂e) emitted per \$million of revenue. In keeping with the previous years the results show that our 'portfolio' (our top 25 Power clients) is significantly (40%) less carbon intensive than the Trucost average for Power companies.

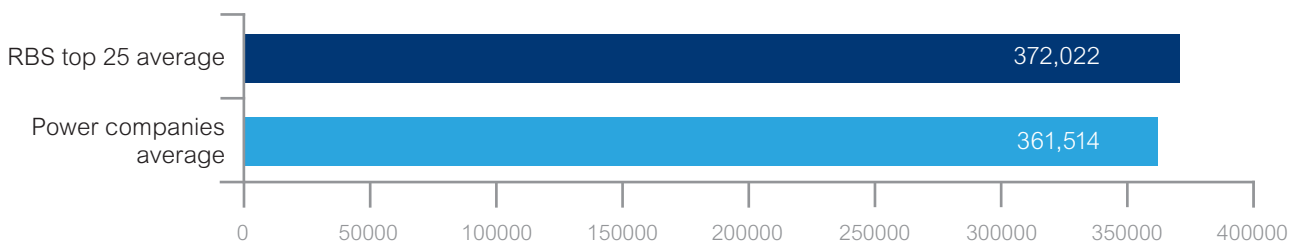
Power client carbon intensity, 2012-2014 (tCO₂e/\$million revenue)



6.3 Power client water footprint

We have also used Trucost's Portfolio Analyser Tool to calculate the water footprint of our top 25 Power clients. The tool calculates water footprint using cubic metres (m³) of water used per \$million of revenue. The results show that our 'portfolio' (our top 25 Power clients) is slightly (3%) more water intensive than the Trucost average for Power companies.

Power client water footprint, 2014 (m³/\$million revenue)



7. General lending to the Oil & Gas sector

As with Power companies, we also provide general lending to Oil & Gas companies. These companies are involved in hydrocarbon extraction, production and distribution.

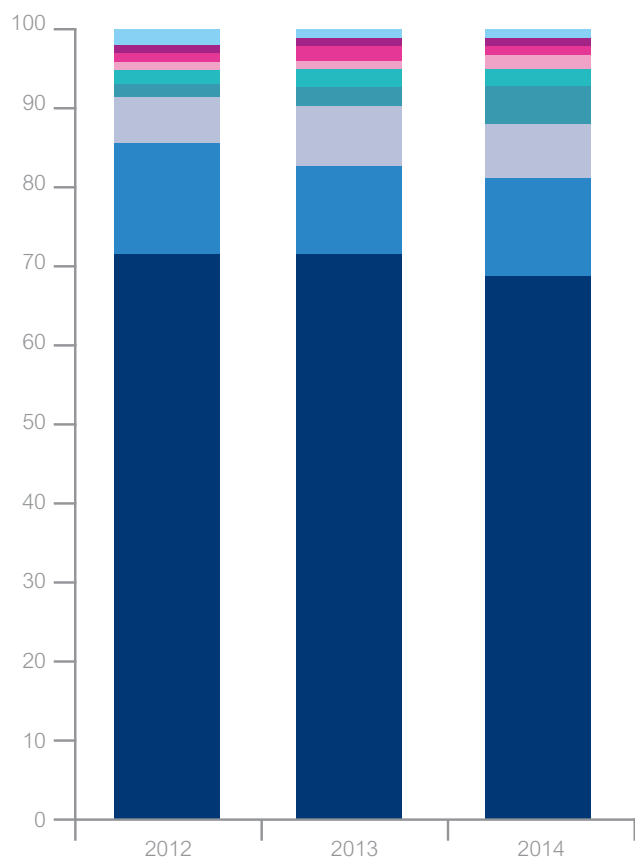
This lending is not tied to specific projects, which means we are generally unable to associate it directly with specific activities. However, using data provided by Trucost and our own research, we have analysed the spread of activities, measured by revenue that our top 25 Oil & Gas clients are involved in.

The table and chart below show that our top 25 Oil & Gas clients draw most of their reserve from petroleum refineries, followed by oil and gas extraction and the wholesale of petroleum and petrochemical products.

7.1 Changes to our Oil & Gas sector clients' activities over time, 2012 - 2014

Oil & Gas sector activities, 2012-2014

(top 25 Oil & Gas clients, by percentage of revenue)



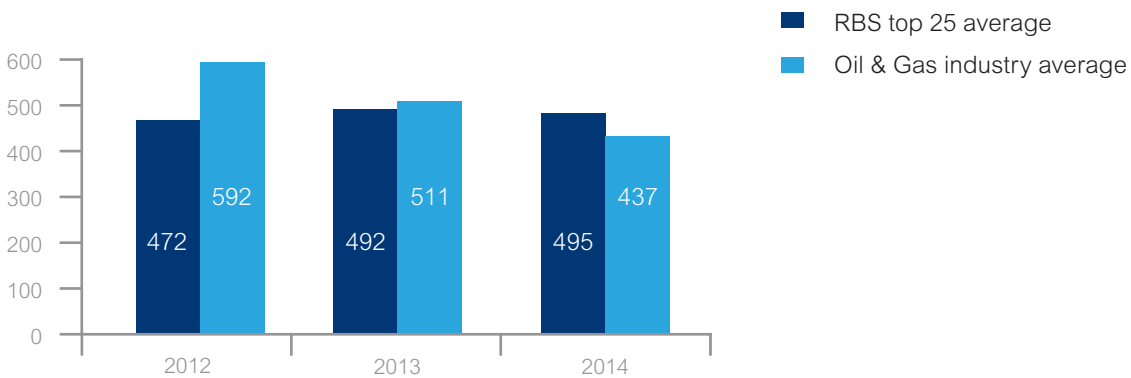
Oil & Gas sector activities (top 25 O&G clients, percentage of revenue)

	2012	2013	2014
■ Petroleum refineries	72	72	69
■ Crude petroleum and natural gas extraction	14	11	13
■ Petroleum, chemical and allied products wholesalers	5	7	6
■ Natural gas distribution	2	3	5
■ Gasoline stations	2	2	2
■ Pipeline transportation	1	1	2
■ Support activities for oil and gas operations	1	2	1
■ Other oil and gas activities	1	1	1
■ Other business activities	2	1	1

7.2 Oil & Gas client carbon intensity

We have used Trucost’s Portfolio Analyser Tool to calculate the carbon intensity of our top 25 Oil & Gas clients. This tool calculates carbon intensity using tonnes of carbon dioxide equivalent (CO₂e) emitted per \$million of revenue. The chart below reveals that as a whole, the Oil & Gas sector has become more carbon efficient. While we have seen that trend reflected in our overall client group, our ‘portfolio’ (our top 25 Oil & Gas clients) is approximately 13% more carbon intensive than the Trucost average for Oil & Gas companies.

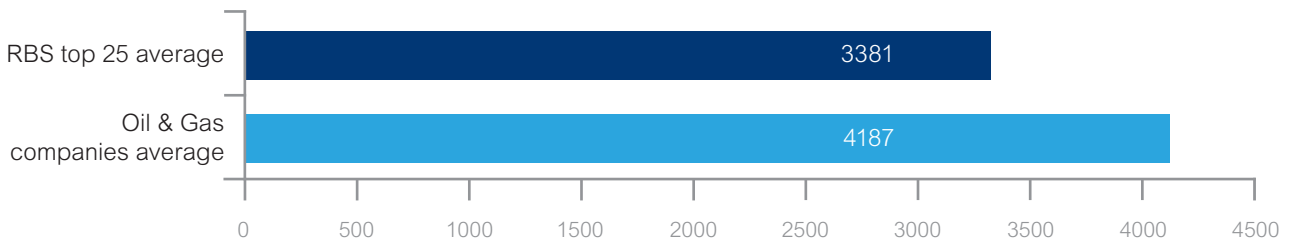
Oil & Gas client carbon intensity, 2012-2014 (tCO₂e/\$million revenue)



7.3 Oil & Gas client water footprint

We have also used Trucost’s Portfolio Analyser Tool to calculate the water footprint of our top 25 Oil & Gas clients. The tool calculates water footprint using cubic metres (m³) of water used per \$million of revenue. The results show that our ‘portfolio’ (our top 25 Oil & Gas clients) is 19% less water intensive than the Trucost average for Oil & Gas companies.

Oil & Gas client water footprint, 2014 (m³/\$million revenue)



8. General lending to the Coal Mining sector

Using data from Trucost, we are also reporting on our general lending to the Coal Mining sector for the first time. These companies are primarily involved in deep coal mining, open cast coal working, and mining and agglomeration lignite.

We estimate using internal credit data that coal mining accounted for less than 0.05% of our total lending in 2014. Most mining companies are diversified across a range of activities, each of which carries unique environmental risks. Our lending is not tied to specific projects, which means we are generally unable to associate it directly with specific activities. However, using data provided by Trucost and our own research, we have analysed the

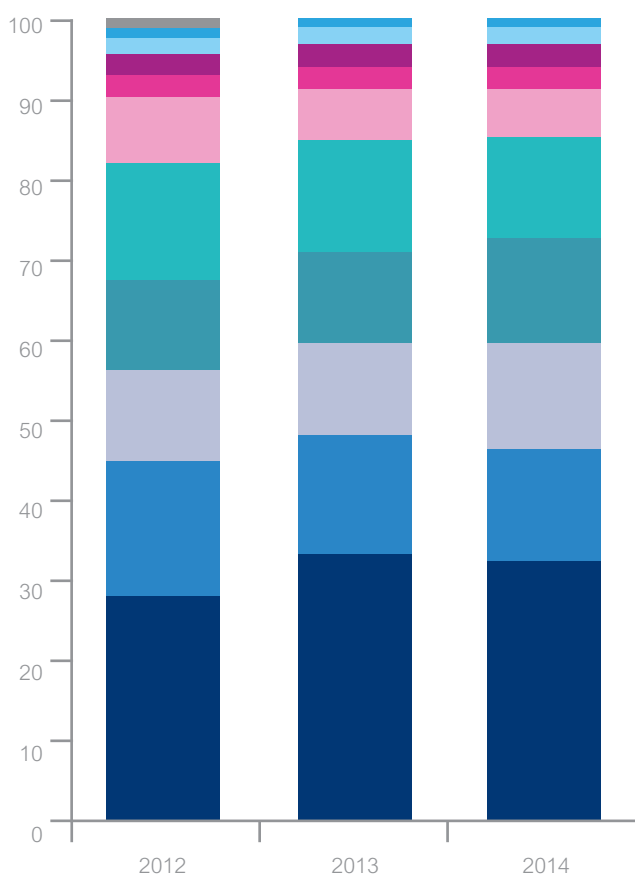
spread of activities, measured by revenue that our top 25 Coal Mining clients are involved in.

The table and the chart below show that our top 25 Coal Mining clients only draw 15% of their revenue from coal mining related activities with the remaining 85% diversified across a range of non-coal mining activities.

8.1 Changes to our Coal Mining sector clients' activities over time, 2012 - 2014

Coal Mining sector activities, 2012-2014

(top 25 Coal Mining clients, by percentage of revenue)



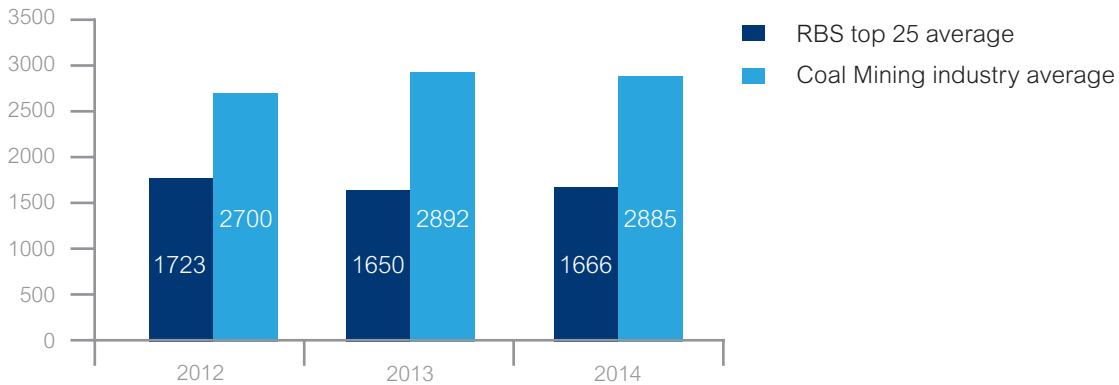
Coal Mining sector activities (top 25 Coal Mining clients, percentage of revenue)

	2012	2013	2014
Other energy-related activities	28	33	32
Other metals-related activities	17	15	14
Iron ore mining	11	11	13
Other business activities	11	12	13
Bituminous coal and lignite surface mining	14	13	12
Other metal and non-metallic mining and quarrying	9	7	7
Bituminous coal underground mining	3	3	3
Power generation and related activities	3	3	3
Copper mining	2	2	2
Lead ore and zinc ore mining	1	1	1
Nickel mining	1	0	0

8.2 Coal Mining client carbon intensity

Coal is the largest source of energy for electricity generators worldwide, as well as one of the largest sources of anthropogenic carbon dioxide emissions. We have used Trucost's Portfolio Analyser Tool to calculate the carbon intensity of our top 25 Coal Mining clients. This tool calculates carbon intensity using tonnes of carbon dioxide equivalent (CO₂e) emitted per \$million of revenue. The results show that our 'portfolio' (our top 25 Coal Mining clients) is significantly (42%) less carbon intensive than the Trucost average for Coal Mining companies.

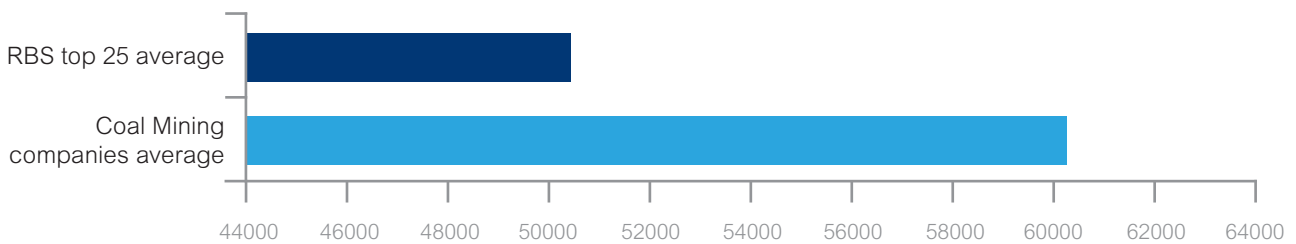
Coal Mining client carbon intensity, 2012-2014 (tCO₂e/\$million revenue)



8.3 Coal Mining client water footprint

Coal mining (and mining more generally) is a highly water intensive activity, so RBS is also measuring the water intensity of its Coal Mining clients. We have also used Trucost's Portfolio Analyser Tool to calculate the water footprint of our top 25 Coal Mining clients. The tool calculates water footprint using cubic metres (m³) of water used per \$million of revenue. The results show that our 'portfolio' (our top 25 Coal Mining clients) is approximately 16% less water intensive than the Trucost average for Coal Mining companies.

Coal Mining client water footprint, 2014 (m³/\$million revenue)



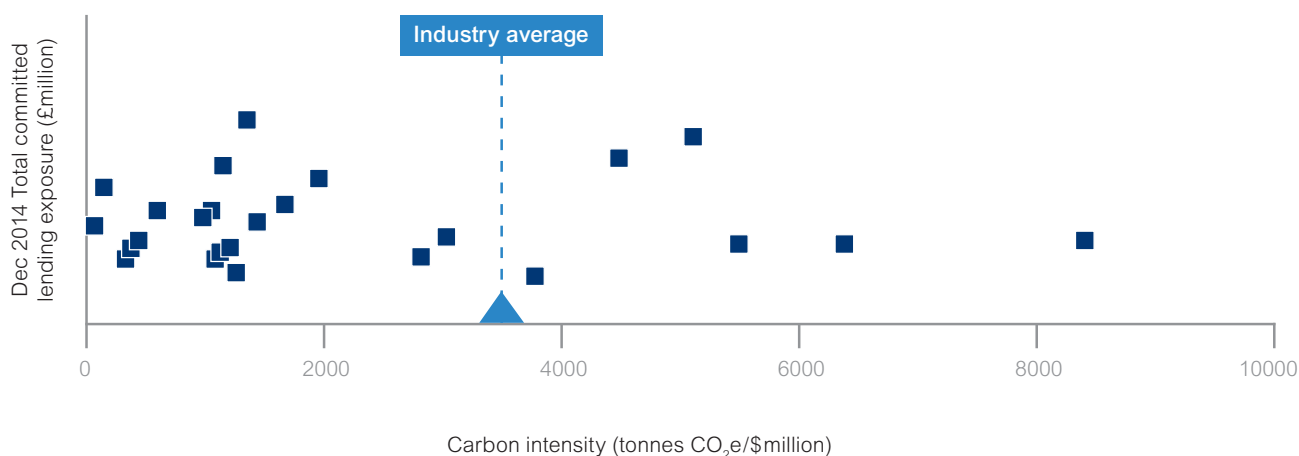
9. Mapping lending exposures with carbon intensity

Energy clients who have high CO₂e emissions relative to their turnover (i.e. are carbon intensive) pose enhanced environmental, social and ethical risks. The charts below show our lending exposures to our top 25 Power, Oil & Gas and Coal Mining clients compared to their carbon intensity and the industry average.

The data for the Power and Coal Mining sectors shows that the majority of our high lending exposures are to companies with lower than industry average carbon intensity. It indicates that most of our top 25 Power and Coal Mining clients by lending are characterised by a lower-than-average carbon intensity. In the case of the Oil & Gas sector, the picture is less clear because there are a number of our top 25 clients that feature on either side of the average carbon intensity for the Oil & Gas industry. However, the majority of the clients that we lend most to are characterised by a lower-than-average carbon intensity. We will continue to track this data over time so that we are able to analyse and assess the carbon risks in our lending and trends in our clients' approach to managing their carbon intensity.

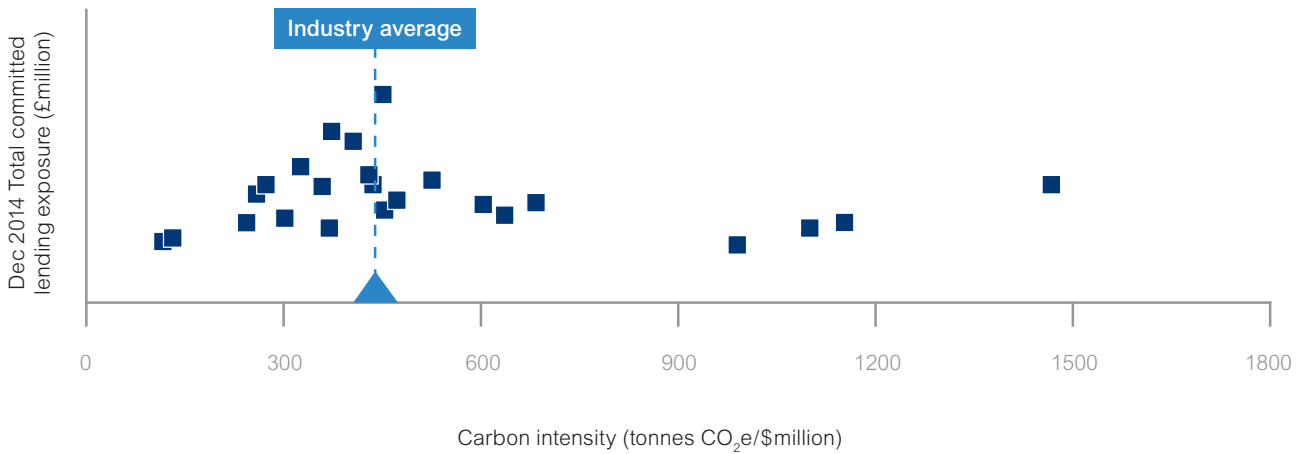
9.1 - RBS top 25 Power clients

Carbon intensity (tonnes CO₂e/\$million) vs. lending exposure (£million): RBS Top 25 Power clients, Dec 2014



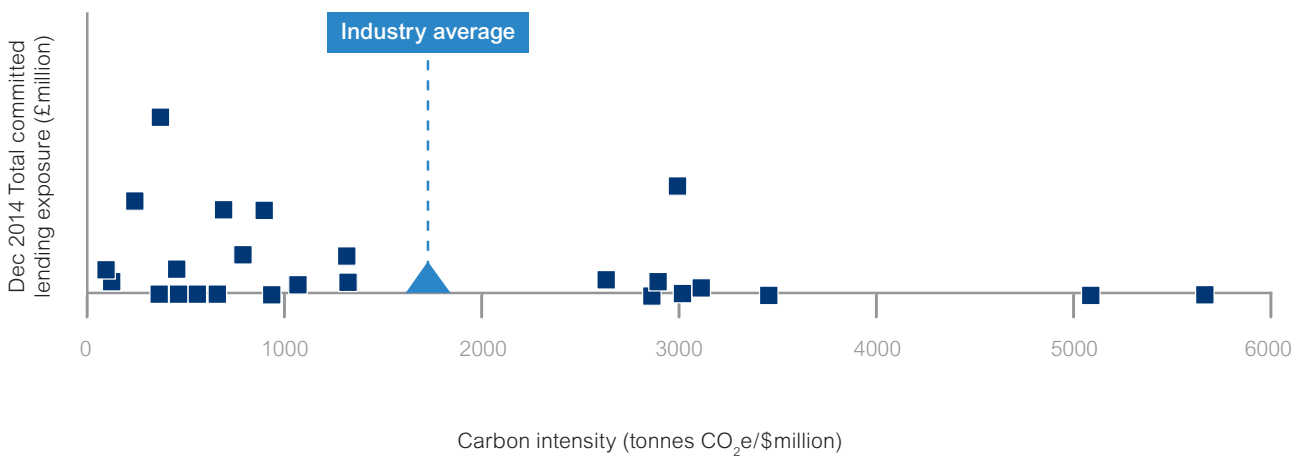
9.2 - RBS top 25 Oil & Gas clients

Carbon intensity (tonnes CO₂e/\$million) vs. lending exposure (£million): RBS Top 25 Oil & Gas clients, Dec 2014



9.3 - RBS top 25 Coal Mining clients

Carbon intensity (tonnes CO₂e/\$million) vs. lending exposure (£million): RBS Top 25 Coal Mining clients, Dec 2014





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