



RBS Sustainability Briefing

# Our financing of the energy sector in 2011



# About this document

In late 2010, we produced our first briefing entitled 'Our financing of the energy sector'. The aim was to provide additional information on our energy clients' operations in the context of sustainable development. We intended to set a benchmark for financial services disclosure around this topic.

This second briefing provides enhanced and updated information on our lending to the energy sector up to the end of 2011. We plan to produce updated briefings of this type each year in line with our annual Sustainability Reporting process. [www.rbs.com/sustainable](http://www.rbs.com/sustainable)

We continue to view climate change and energy security as two of the biggest challenges to ensuring a safe, sustainable future for the world's inhabitants over the coming decades. The use of energy is the major source of man-made greenhouse gas emissions worldwide – predominantly through the burning of fossil fuels such as coal, oil and gas – and is therefore of key importance to tackling climate change.

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### Working with Trucost

This year we have worked with Trucost, one of the world's foremost environmental data experts who hold detailed information on the activities and impacts of large companies worldwide. We have used this data to help us carry out analysis of the generation mix of the energy companies we lend to and their greenhouse gas emissions.

#### Note on data

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

## Key Points

### General lending

- Across the whole of RBS, approximately 3% of our lending (measured by total credit risk assets) is committed to the oil and gas and power sectors combined.
- Of this, 1.8% is to the oil and gas sector and 1.2% is to the power sector, which uses a mix of gas, nuclear, coal, oil and renewables.
- Over the last three years, due to changes in our business, our lending to the energy sector has dropped by almost half (20% in the last year) based on committed exposures at the end of each year.
- Approximately 6.5% of our oil and gas lending is to companies who derive more than 10% of their income from oil sands operations.

### Finance for projects

- We have loaned more than any other bank to renewable energy projects in the UK in 2011.
- We provided more finance to wind power projects than any other type of energy project in 2011.
- In the UK, over two thirds of our energy project finance went to renewables.

### Client carbon intensity

- Using data from Trucost, we estimate that our top 25 power clients and top 25 oil & gas clients are less carbon intensive than the industry average.
- Our largest lending exposures are generally to energy companies with lower carbon intensity than their peers.
- We estimate that our top 25 power company clients are primarily involved in distribution activities, followed by generation from nuclear, coal, gas and renewables.

# 1. About RBS

RBS is changing to become a stronger, safer bank that is open, transparent and makes a positive impact on the communities in which it operates. At the end of this process our business will look very different from the time of the financial crisis in late 2008. We expect, however, to remain a large, international bank, providing personal and business banking services to customers in the UK, US and Ireland, and larger corporate clients operating in all parts of the world.

## 1.1 Our lending to the energy sector

RBS is predominantly a deposit and lending bank: we take in money from 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.

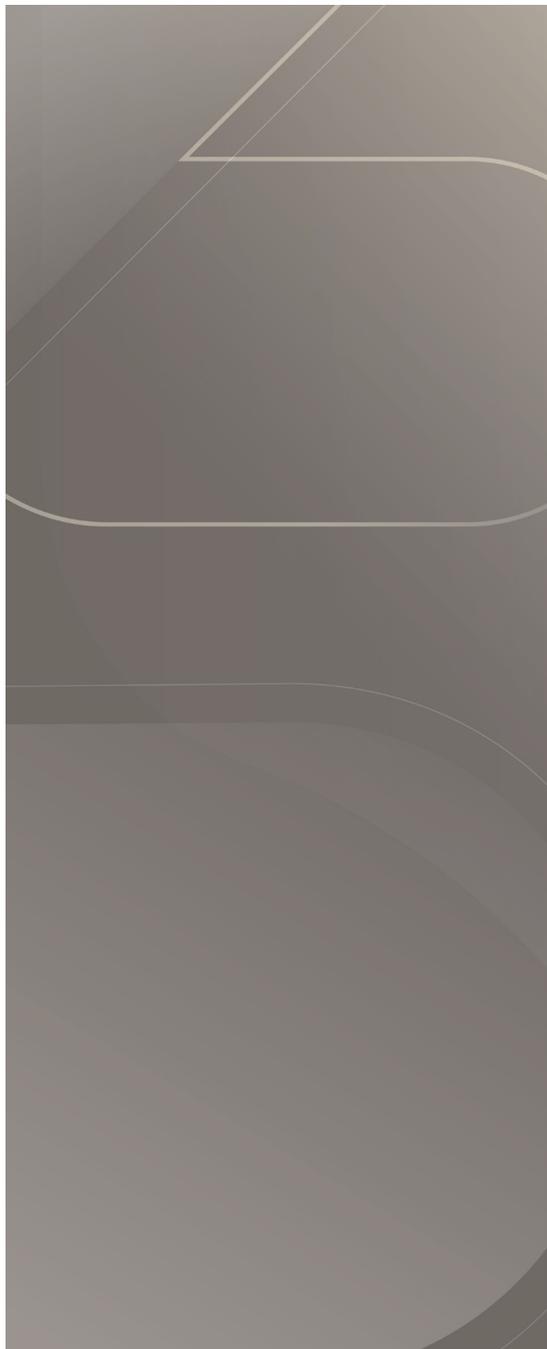
The majority of our lending to the energy sector is in the form of general corporate finance, which isn't usually tied to any specific use or project. When we provide general corporate finance, the client will make use of it in a variety of ways (for example by investing in their facilities or operations, purchasing other businesses or paying other costs). Much like the provision of a loan to a personal customer, a bank cannot under these circumstances stipulate how the loan is used, provided the client meets its requirements for the credit risks they represent. RBS has a range of policies and procedures in place to ensure we take account of social and environmental risks when lending to customers.

**[www.rbs.com/sustainability/governance-reporting-engagement/policies.html](http://www.rbs.com/sustainability/governance-reporting-engagement/policies.html)**

We also offer structured finance for specific energy projects in the UK, Ireland and the 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, up to 18 years in some cases.

## 1.2 Terminology

Throughout this document, we refer to the two main parts of the energy sector as 'oil and gas' and 'power'. These two terms are how most large banks (including us) classify their energy sector clients. The oil and gas sector primarily focuses on hydrocarbon extraction, production and distribution, whereas the power sector focuses on electricity generation and transmission. Most renewables activity takes place within the power sector, although some oil and gas companies do have renewable energy operations.



## 2. Energy lending as a proportion of our total lending

Overall, around 1.8% of our total lending goes to oil and gas companies, and 1.2% goes to power companies. This is less than these sectors' share of the global economy. Our lending to both sectors reduced by around 20% in the last year as a result of changes to our business, particularly in our global banking division. The chart to the right shows how our total lending was split between different sectors of the economy, at the end of 2011. The totals represent our 'credit risk assets' – or the amount we have loaned out to each sector at that point in time.

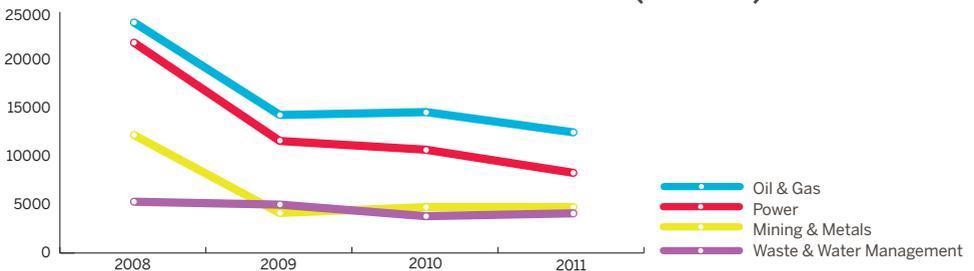
**Total RBS lending to all sectors:  
Credit Risk Assets at December  
2011 (£Millions)**



Personal	183,162
Property	101,753
Sovereigns & Quasi Sovereigns	91,897
Banks	68,175
Non-Bank Financial Institutes	59,145
Transport	39,742
Retail & Leisure	37,842
Services	29,520
<b>Natural Resources</b>	<b>29,316</b>
Manufacturing	28,590
TMT	16,130

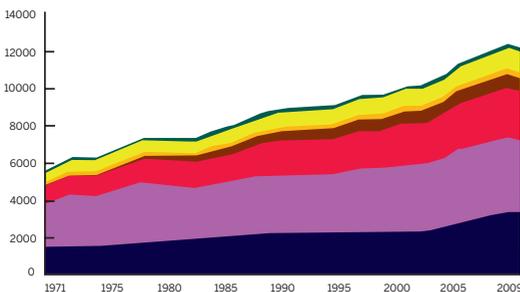
The 'Natural Resources' category includes all our lending to companies in the energy sector. This category covers clients in electricity generation, transmission, oil and gas, mining, metals, water and waste management.

**Natural Resources Sector in Detail:  
Total lending by Credit Risk Assets  
2008 – 2011 (£millions)**



### 3. The world's use of energy

Around the world, the demand for energy remains strong as populations grow and living standards increase. Electricity is primarily obtained from coal, gas, nuclear and renewables (hydro, biomass, wind, solar etc.), whereas oil tends to be used primarily as a transport fuel, heating fuel and in many industrial processes and products. Globally, total energy consumption is roughly twice what it was in 1970, with oil providing the largest proportion<sup>1</sup>.



### 3.1 Global energy supply

Global energy supply is still heavily dependent on fossil fuels: over 80% of total primary energy supply comes from coal/peat, oil and gas. The remainder is from nuclear power, hydro and combustible renewables (mostly wood and other biomass). Other forms of energy supply, such as wind, solar and geothermal have seen rapid growth in recent years but still make up a very small proportion of the world's primary energy supply. Within the electricity sector, however, their role is more significant.

#### Total primary energy supply by fuel<sup>1</sup> (Mtoe)

Using following figures in key (2009)

■ Coal/Peat	27.2%
■ Oil	32.8%
■ Gas	20.9%
■ Nuclear	5.8%
■ Hydro	2.3%
■ Combustible renewables & waste	10.2%
■ Other (Wind, solar, geothermal etc)	0.8%

Electricity and heat generation is the largest man-made source of greenhouse gas emissions globally, producing over 10Gt of CO<sub>2</sub> per year<sup>2</sup>. 75% of these emissions come from burning coal<sup>3</sup>. The power sector is also the one that has seen the fastest growth in emissions in the last 40 years. Transport and industry are the next biggest sources of greenhouse gas emissions, with c.5Gt of CO<sub>2</sub> per year each.

<sup>1</sup>IEA, Key World Energy Statistics, 2011 (2009 figures).

<sup>2</sup>IPCC, Mitigation of Climate Change, Contribution of Working Group III to the Fourth Assessment Report, 2007, Figure 1.2.

<sup>3</sup>IEA, CO<sub>2</sub> from Fossil Fuel Combustion, Paris, 2010.

## 4. Lending to specific energy projects

Our structured finance teams in the UK, Ireland and the US provide loans to specific energy projects such as wind farms and power stations. Often, a group of banks will be involved in financing a project, each providing a share of the loan and taking a share of the risk.

We have categorised our lending to different types of energy projects for the year 2011. Over this period, we have provided more finance to wind and solar power projects than any other type of energy project. In the UK, more than two thirds of our lending to energy projects was to renewables. We have also loaned more to renewable energy projects in the UK than any other bank.

To understand and manage the social and environmental risks inherent in project finance, we have adhered to the Equator Principles since their inception. More details of our approach can be found in our Sustainability Reporting information at [www.rbs.com/sustainable](http://www.rbs.com/sustainable)

### RBS Energy Project Financing in 2011 (by amount lent)



Wind	31%
Solar PV	14%
Gas Fired	13%
Biomass	13%
Short Term Operating Reserve	11%
Oil	10%
Transmission	8%

## 5. General lending to the power sector

In addition to structured finance for specific projects, we also provide general lending to power companies. These companies are involved in the generation and transmission of electricity.

This lending is not tied to specific projects, which therefore means we cannot associate it directly with specific forms of energy generation. However, using data from Trucost, and our own research, we have analysed the spread of activities 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, so we have used a weighting mechanism that gives more weighting to the activities of those to whom we lend the most. The chart on the right shows the results, revealing that in financing these power companies, we are chiefly supporting gas and electricity distribution, followed by nuclear generation, followed by coal and gas-fired generation.

### Power sector activities supported by our general lending (top 25 power clients)



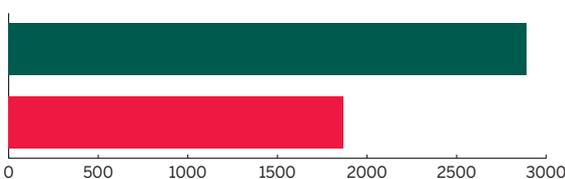
■ Distribution (gas & electricity)	35%
■ Nuclear – Power generation	18%
■ Gas – Power generation	15%
■ Coal – Power generation	15%
■ Oil & Gas extraction, production and manufacturing	5%
■ All renewables (hydro, wind, solar & biomass)	5%
■ Other business activities	3%
■ Other electrical power	3%
■ Petroleum Power Generation	1%

### 5.1 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 CO<sub>2</sub>e emitted per \$million of revenue. The results show that our 'portfolio' (our top 25 power clients) is significantly less carbon intensive than the Trucost average for power companies.

#### Carbon Footprint

- Power companies average 2,889
- RBS top 25 average 1,868

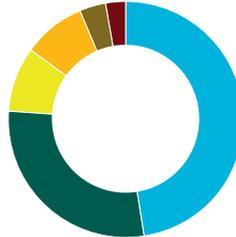


## 6. General lending to the oil and gas sector

As with power companies, we provide general lending to oil and gas companies. Again, this lending is not tied to specific projects, which means we cannot associate it directly with specific forms of energy generation. However, using data from Trucost, and our own research, we have analysed the spread of activities of our top 25 oil and gas clients.

We have used a weighting mechanism to give more weighting to the activities of those to whom we lend the most. The chart opposite shows the results, revealing that refining is the major activity of the top 25 oil and gas companies we lend to.

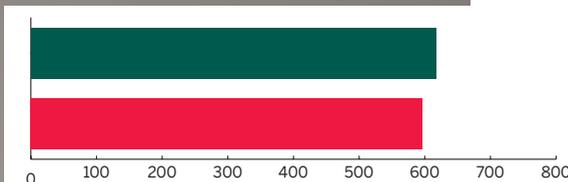
### Oil and gas sector activities supported by our general lending (top 25 oil and gas clients).



Refining	48%
Extraction	29%
Services/support	9%
Transportation/distribution	9%
Wholesale	4%
Other business	3%

### 6.1 Oil and gas client carbon intensity

We have also used Trucost's Portfolio Analyser Tool to calculate the carbon intensity of our top 25 oil and gas clients. This tool calculates carbon intensity using tonnes of CO<sub>2</sub>e emitted per \$million of revenue. The results show that our 'portfolio' (our top 25 oil and gas clients) is slightly less carbon intensive than the Trucost average for oil and gas companies.



#### Carbon Footprint

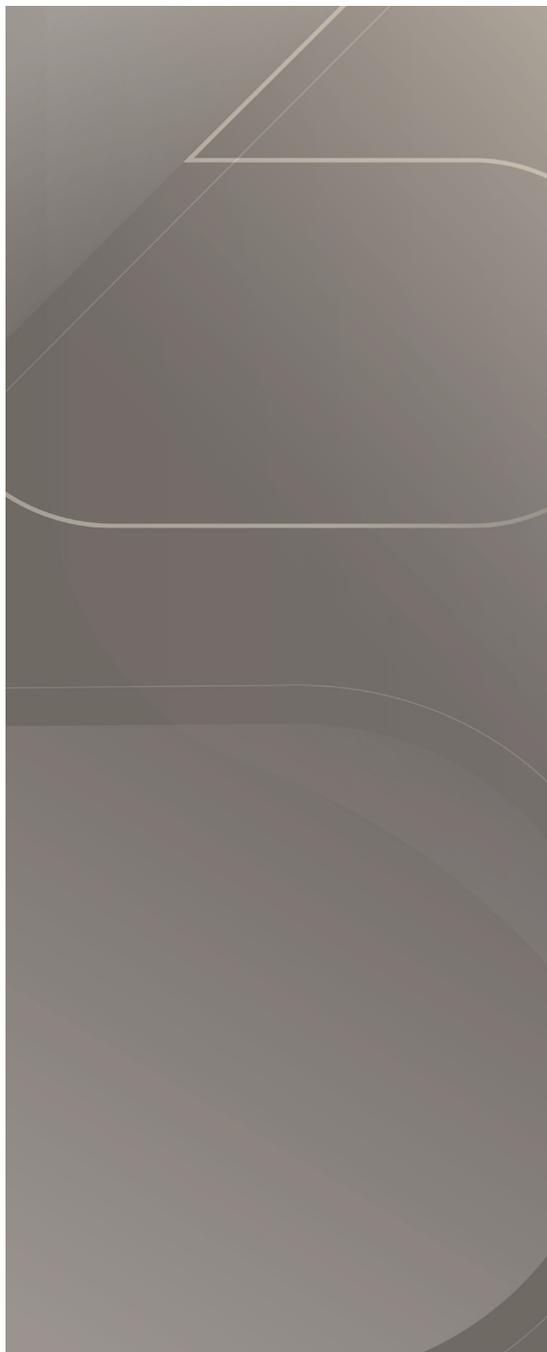
- Oil & Gas average 616.7
- RBS top 25 average 596.2

## 6.2 Oil sands

Unconventional oil production, such as the oil sands developments in Alberta, Canada, have additional environmental impacts not normally associated with conventional oil extraction. These include additional CO<sub>2</sub> emissions from production and impacts on the local landscape, ecosystems and communities.

RBS has not provided any finance directly to an oil sands project for at least four years. We do however provide general corporate finance to a small number of companies who have some oil sands extraction and production operations. For most of these clients this forms a relatively small part of their overall business, but for others it forms a more significant part of their operations and income.

Overall, approximately 6.5% of our total oil and gas lending is to companies who derive more than 10% of their income from oil sands operations. We are committed to understanding and managing the social and environmental risks associated with sectors such as oil sands, and more details of our approach can be found in our environmental, social and ethical risk management policies available at [www.rbs.com/sustainability/governance-reporting-engagement/policies.html](http://www.rbs.com/sustainability/governance-reporting-engagement/policies.html)

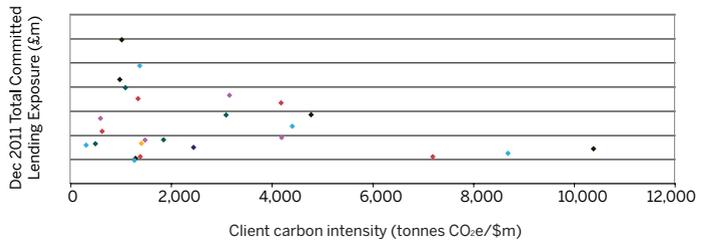


## 7. Mapping lending exposures with carbon intensity

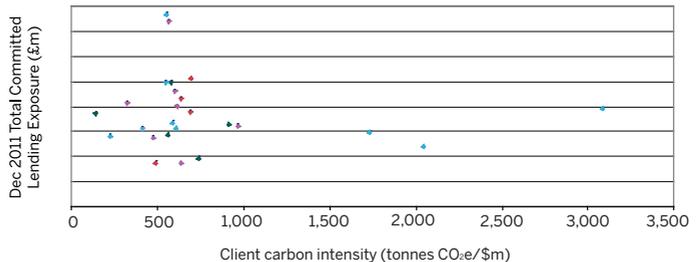
Energy clients who have high CO<sub>2</sub>e emissions relative to their turnover (i.e. are carbon intensive) pose enhanced environmental, social and ethical risks. The charts on the right show our lending exposures to our top 25 power and oil and gas clients compared to their carbon intensity.

The data for both sectors shows that the majority of our high lending exposures are to companies with lower carbon intensity compared to their peers. This is particularly the case for power clients.

**Carbon intensity vs lending exposure: RBS Top 25 Power clients**



**Carbon intensity vs. lending exposure: RBS Top 25 Oil and Gas clients**



## 8. Our commitments

### 8.1 Disclosure

We are committed to providing enhanced disclosure on our financing of the energy industry in the years to come. As part of our Sustainability reporting, we plan to report on our lending to the energy sector each year. We believe there is substantial scope to provide further analysis of the role RBS plays in financing the energy industry and the ways we are addressing sustainability risks. The shape and focus of RBS as a business is likely to change over the coming years, which may mean that year-on-year comparisons are not always available or valid. However, we will continue to encourage our energy sector clients to disclose publicly to the Carbon Disclosure Project, and we will continue to do so as well.

### 8.2 Policies

In addition to our long-standing adoption of the Equator Principles for project finance, we have introduced revised environmental, social and ethical (ESE) risk policies governing our lending to certain sectors, including the oil and gas sector. These policies ensure that additional checks are made to ensure that clients have adequate procedures in place to mitigate adverse environmental and social impacts.

In certain circumstances, these policies also prevent the provision of finance where the environmental or social impacts are considered too high.

### 8.3 Renewables financing

We are committed to supporting the renewable energy industry through a variety of financing and advisory services. With over 20 years' worth of expertise, we are continuing to develop ways to finance all sizes of installation, from micro-generation to large-scale wind farms. Our focus is on more proven technologies: as a major bank, we are generally unable to directly finance early-stage and developmental technologies due to the high credit risks involved. We are, however, committed to exploring ways in which we can support these parts of the industry in other ways, for example through our involvement with the Saltire Prize and partnership with the Edinburgh Centre for Carbon Innovation.

### 8.4 Collaboration

The most effective way of addressing the energy financing challenge is through cross-sector collaboration. RBS will continue to take a leading role in raising these issues with policy makers and the energy industry. We are committed to supporting other initiatives to address climate change risks and opportunities in energy sector financing. In October 2012, RBS will again be supporting the Scottish Low Carbon Investment Conference in Edinburgh as part of a programme of support to the clean energy industry.



More information on our overall approach to Sustainability, including our annual Sustainability Report, can be found on our website at [www.rbs.com/sustainable](http://www.rbs.com/sustainable)