

RBS Sustainability Briefing

# Our financing of the energy sector in 2012



 RBS Group

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



# About this document

This report is the third 'Our financing of the energy sector' briefing that we have produced since 2010. The original aim remains unchanged: to provide additional information on our lending to the energy sector and the activities of our energy clients in the context of sustainable development. This report provides enhanced and updated information on our lending to the energy sector up to the end of 2012.

Our intention is to continue to set a benchmark for financial services disclosure around this topic and we plan to produce updated reports of this type each year in line with our 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 primary source of man-made greenhouse gas emissions worldwide – predominantly through the burning of fossil fuels – and is therefore of key importance to tackling climate change.



## Working with Trucost

For the second year running, we have used data from Trucost to help us carry out analysis of the activities of the energy companies we lend to and their greenhouse gas emissions. 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 within this report. However, in some cases there are gaps in the data available which means we have had to make use of approximations and/or information provided on a voluntary basis that has not been independently verified.

# What's in this report

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# Key points

## General lending

- Across the whole of RBS, approximately 2.8% of our total lending is committed to the energy sector (down from 3% in 2011)
- Of this, 1.7% is to the Oil & Gas sector, and 1.1% is to the Power sector, which uses a mix of gas, nuclear, coal, oil and renewables
- Our total lending to the energy sector has reduced by around 60% since the end of 2008
- Gas and electricity distribution are major activities for our top 25 Power clients

## Structured finance

- 68% of our 2012 structured financing in the energy sector was to renewable energy projects, with the remainder split between oil, gas and other electricity generation
- Wind power projects accounted for over half our structured financing in the energy sector in 2012
- For the second year running, we loaned more than any other bank to renewable energy projects in the UK. We were also ranked third in US renewables power lending

## Client carbon intensity

- Using data from Trucost, we estimate that our top 25 Power clients and top 25 Oil & Gas clients are on average substantially less carbon intensive than the industry average
- Among our top 25 Oil & Gas clients, there is a strong correlation between high lending exposures and lower-than-average carbon intensity
- Among our top 25 Power clients, there is a reasonable correlation between high lending exposures and lower-than-average carbon intensity

# 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 large corporate clients operating globally.

## 1.1 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 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 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 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, over 10 years in some cases.

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

More details of these policies can be found at: <http://www.rbs.com/sustainability/governance-reporting-engagement/policies.html>

## 1.2 'Oil & Gas' and 'Power' Terminology

Throughout this document, we refer to the two main parts of the energy sector as 'Oil & Gas' and 'Power'. These two 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 and transmission. Most renewables activity takes place within the Power sector, although some Oil & Gas companies do have renewable energy operations.

## 2. The world's use of energy

Around the world, the demand for energy remains strong as populations grow and living standards improve. 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>.

### 2.1 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

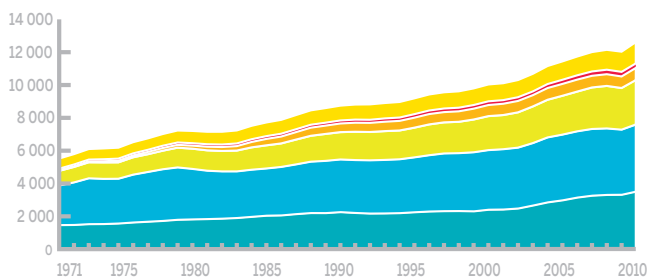
proportion of the world's primary energy supply. Within the electricity sector, however, their role is more significant.

Electricity and heat generation are the largest man-made sources 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.

World total primary energy supply 2010 by fuel (Mtoe)

Oil	32.4%
Coal/peat	27.3%
Natural Gas	21.4%
Biofuels and waste	10.0%
Nuclear	5.7%
Hydro	2.3%
Other (wind, solar, geothermal etc.)	0.9%

World total primary energy supply from 1971 to 2010 by fuel (Mtoe)



<sup>1</sup>IEA, Key World Energy Statistics, 2012 (2010 figures)

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

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

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

Around 2.8% of all our lending is committed to the energy sector (1.7% to Oil & Gas and 1.1% to Power). This compares to 29% of our lending committed to personal customers and 14% committed to the property sector, as the chart on the right shows.

The total amount of lending we provide to the energy sector has dropped substantially since 2008 as a result of changes to our business, particularly in our International Banking division. Also, the amount we provide to the energy sector has dropped in relation to our total lending, meaning it is falling slightly faster than our overall lending.

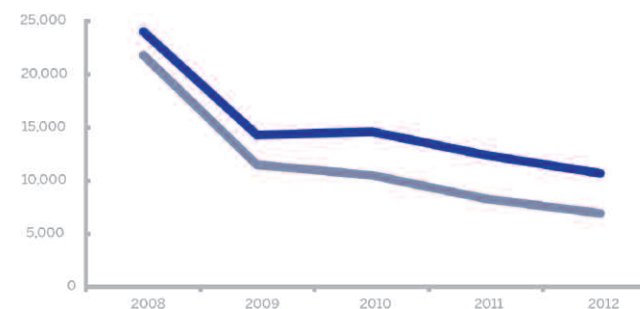
Total RBS lending to all sectors:  
Credit Risk Assets at December 2012 (£Millions)

Personal	181,665
Property	90,511
Sovereigns & Quasi Sovereigns	83,284
Banks	60,367
Non Bank Financial Institutions	52,956
Transport	34,555
Retail & Leisure	29,459
Services	27,788
Manufacturing	25,644
<b>Power and Oil &amp; Gas</b>	<b>17,572</b>
Telecoms, Media and Technology	13,759
Other Natural Resources	7,518



Changes in lending to the Power and Oil & Gas sectors 2008-2012, Credit Risk Assets (£Millions)

- Oil & Gas
- Power



## 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.

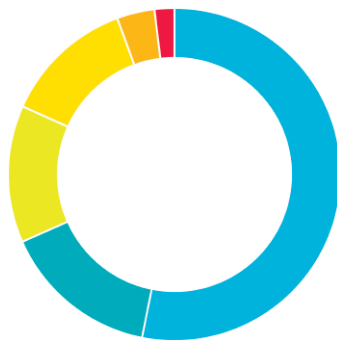
We have categorised our lending to different types of energy projects over the course of 2012. During this period, we provided more finance to wind projects than all other energy projects combined. We retained our position as the biggest lender to renewables projects in the UK<sup>4</sup>, and were also ranked third for renewables project lending in the US<sup>5</sup>.

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 information at <http://www.rbs.com/sustainability/citizenship-and-environmental/e-se-risk.html>

RBS energy structured financing in 2012 (by amount lent)

Wind	53%
Combined Cycle Gas Turbine (CCGT)	15%
Oil	13%
Solar	13%
Short Term Operating Reserve (STOR)	4%
Fuel Cell	2%



<sup>4</sup> Infrastructure Journal 2012 renewables league tables.

<sup>5</sup> Dealogic US Renewable Power league Table 2012

## 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 primarily involved in the generation and transmission of electricity.

This lending is not tied to specific projects, which means we are generally unable to 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 that our top 25 Power clients are involved in.

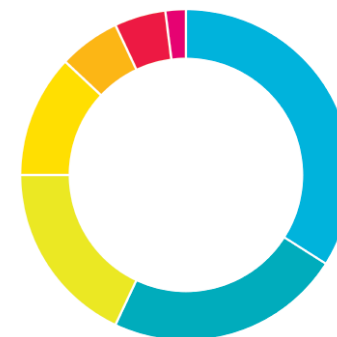
Almost all of these Power companies are involved in a range of different activities and generation types, so we have used a weighting mechanism that gives more weighting to the activities of those to whom we lend the most. The chart to the right shows the results, revealing that in financing these top 25 Power companies, we are chiefly supporting gas and electricity distribution, followed by nuclear generation, and by coal and gas-fired generation.

### 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.

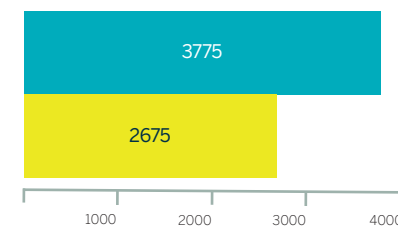
Power sector activities supported by our general lending (top 25 Power clients)

Distribution (gas and electricity)	34%
Nuclear	23%
Coal	18%
Gas-power generation	12%
Renewables	6%
Other business activities	5%
Petroleum-power generation	2%



Power Client carbon intensity (tCO<sub>2</sub>e/\$m revenue)

Power companies average
RBS top 25 average



## 6. General lending to the Oil & Gas sector

As with Power companies, we also provide general lending to Oil & Gas companies. Again, this lending is not tied to specific projects, which means we are generally unable to associate it directly with specific activities.

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

### 6.2 Unconventional oil and gas production

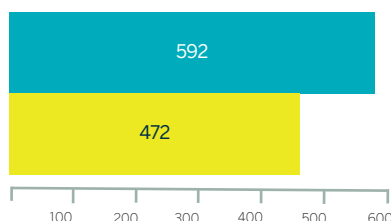
Unconventional oil technologies, including the oil sands developments in Alberta, Canada, have additional social and environmental impacts not normally associated with conventional oil extraction. These include increased CO<sub>2</sub> emissions from production and impacts on the local landscape, ecosystems and communities. RBS does not provide project finance to oil sands projects, however we do provide general corporate lending to a number of companies who have oil sands extraction and production operations. For some of these companies, oil sands forms a relatively small part of their activities but for others it is a more significant part of their operations and income.

Over recent years, oil production in Alberta has increased and a growing number of Oil & Gas companies (including some of our clients) have begun operating there. Overall, approximately 7.2% of our total Oil & Gas lending is to companies with significant oil sands operations – i.e. those who derive more than 10% of their income from oil sands.

We remain committed to understanding and managing the social and environmental risks associated with unconventional Oil & Gas technologies such as oil sands and shale gas, and more details of our approach can be found in our environmental, social and ethical risk management policies available at <http://www.rbs.com/sustainability/citizenship-and-environmental/ese-risk.html>

#### Oil & Gas client carbon intensity (tCO<sub>2</sub>e/\$m revenue)

- Oil & Gas companies average
- RBS top 25 average

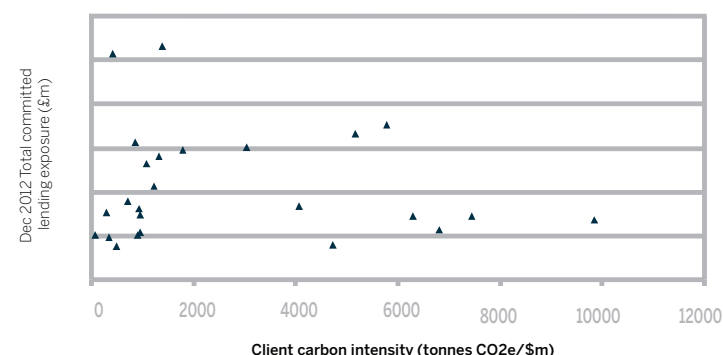


## 7. Mapping lending exposures with carbon intensity

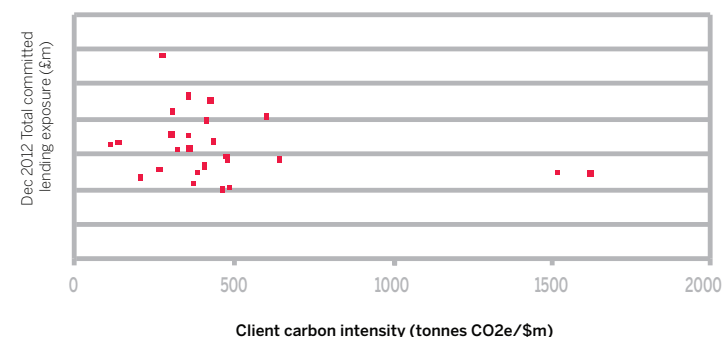
Energy clients who have high CO<sub>2</sub>e emissions relative to their turnover (i.e. are carbon intensive) pose enhanced environmental, social and ethical risks. The charts below show our lending exposures to our top 25 Power and Oil & Gas clients compared to their carbon intensity.

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. By tracking this data over time we are able to analyse the carbon risks in our lending and trends in our clients' approach to managing their emissions.

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



Carbon intensity vs. lending exposure: RBS Top Oil & Gas clients



## 8. Our commitments

### 8.1 Disclosure

We remain committed to providing enhanced disclosure on our financing of the energy industry in the years to come. As part of our Group Sustainability reporting, we plan to report on our lending to the energy sector each year. We also believe there is substantial scope to provide further analysis of the role RBS plays in financing the whole low carbon transition, including, but not limited to, the energy industry.

Although 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) we will continue to publicly disclose our approach to energy and climate change through initiatives such as the CDP.

### 8.2 Policies

In addition to our long-standing adoption of the Equator Principles for project finance, over recent years we have introduced revised environmental, social and ethical (ESE) risk policies and position statements governing our lending to key sectors, including the Power and Oil & Gas sectors. These policies require 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 Sustainable energy financing

We are committed to supporting the renewable energy and energy efficiency industries through a variety of financing and advisory services. With over 20 years' worth of expertise in this market, we are continuing to develop ways to finance all sizes of installation, from micro-generation projects to large-scale wind farms and commercial retrofits. We aim to remain the largest lender to renewable energy projects in the UK and develop further initiatives to support customers such as our £200m Carbon Reduction Fund which we launched in November 2012.

### 8.4 Collaboration

The most effective way of addressing the energy financing challenge is through cross-sector collaboration, because this moves the whole banking sector forward as a whole. In this spirit, RBS will continue to participate in forums and initiatives such as the UNEP FI and the Equator Principles which are focused on addressing climate change risks in energy sector financing. We will also continue our non-lending support for the clean energy industry including our sponsorship of events and hosting of educational learning events for those working in the 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)