Approach to the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) recommendations

In 2016, the Financial Stability Board (FSB) launched an industry-led initiative, the Task Force on Climate-related Financial Disclosure, to review how to best manage the threat climate change presents to the stability of the global financial system. The mandate was to develop recommendations for voluntary, consistent climate-related risk to provide information to stakeholders. The Task Force considered the physical, liability and transition risks associated with climate change.

The Task Force published its final recommendations in June 2017. RBS welcomed the release of these recommendations and is committed to implementing them. RBS has reported on carbon emissions and climate-related matters, and submitted information to the CDP sustainability index, since 2003.

Governance

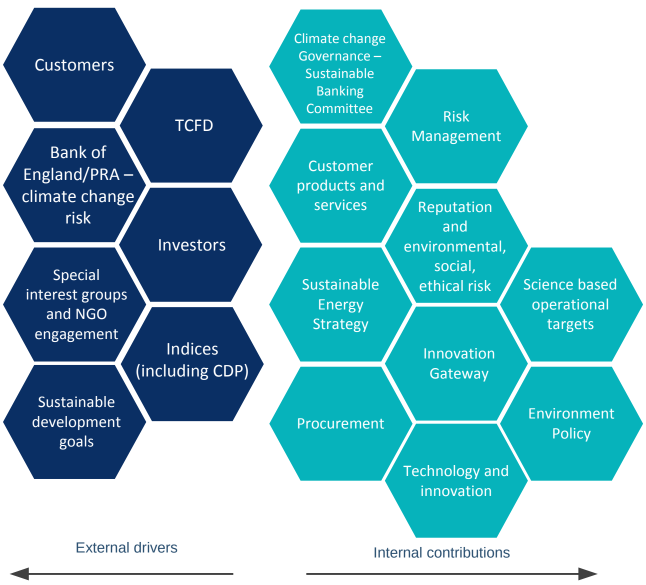
The Board has oversight of climate related risks and opportunities through the Sustainable Banking Committee (SBC). SBC's remit includes considering relevant environmental, social and ethical issues and during 2017 was engaged on environmental targets, the sustainable energy strategy and reputational risk appetite. In addition, in August 2017 SBC invited a group of external experts to attend a stakeholder engagement session on climate change risk. For further details on risk governance, see page 152.

At a franchise level, climate-related opportunities in relation to supporting customers through the low carbon transition are managed and assessed through the business and products approvals processes, with strategy and co-ordination undertaken by the cross-bank Sustainable Energy Forum (SEF). This forum brings together senior leaders from across RBS who support customers from SMEs to multinationals to achieve their sustainable energy ambitions.

Strategy

The RBS climate change strategy is driven by a range of external and internal drivers and encompasses all activities covering both direct and indirect impacts.

Climate Change Strategy Drivers



Direct impacts

The strategy for managing direct climate change impacts is focused on continued efficiency of buildings, processes and associated activities such as business travel. In 2017 90% of UK and Republic of Ireland electricity usage was from renewable sources (66% globally). RBS is also investing in its property estate to reduce energy usage and waste. This is further supported by the Innovation Gateway initiative for green entrepreneurs. The property strategy has and will aim to continue to result in a material reduction in footprint which in aggregate will reduce the exposure to direct physical impacts for climate-related risks.

RBS also continues to refine its business continuity plans to deal with the impact of severe weather to operations and sees the shift to digital and mobile banking as helping to improve the resilience of the business and customers' activities during severe weather.

Indirect impacts

The strategy for managing indirect climate change impacts is focused on supporting customers with the transition to a low carbon economy through the provision of financial products and services. RBS is committed to ensuring it does not miss the substantial opportunities available to finance low carbon technologies and has been recognised externally as a leader in supporting renewable energy finance. RBS expects these, and wider opportunities to continue to grow in the future.

Risk Management

RBS employs a continuous process for identifying and managing emerging risks, including climate-related risks. While no climate-related risks have been identified that would have a major impact on RBS's strategy over a five-year horizon, the ability to manage new, emerging and unforeseen threats is a key element of the risk management framework.

The impact of climate-related issues on the risk profile of RBS's customers may also be considered as part of the periodic sector reviews and deep dives carried out to monitor and assess different types of risk across the portfolios. Further climate scenario analysis will be undertaken in 2018.

RBS has significantly reduced its credit exposure to the sectors most vulnerable to climate-related regulation and market changes. At 31 December 2017, total exposure to the Power and Oil & Gas sectors had reduced to 1.2% of total lending exposures.

RBS has had a policy in place for ESE risks since 2011. The policy includes sectors sensitive to climate-related risk, such as Forestry, Fisheries and Agriculture, and prohibits lending activity to some industry types proven to have a material adverse environmental impact.

Metrics and Targets

RBS uses a range of metrics and targets to assess our climate related risks and opportunities. These include: climate impacts from our operations (refer to page 30 of the Strategic Report); exposure to high carbon sectors and lending to support sustainable energy sectors. For further information refer to the Sustainable Banking pages on rbs.com.