

## Climate related financial disclosures

Climate change presents both risks and opportunities to our business across our customers, operations and suppliers.

The Board has **governance** oversight on climate via the Sustainable Banking Committee. From 2019 this will be shared with the Board Risk Committee. A Climate Change Working Group (CCWG) has been established with the accountable executive being the Chief Risk Officer. The CCWG is responsible for addressing climate-related regulation, risks, opportunities, metrics and analysis. Membership includes senior representatives from Risk, Sustainable Banking, Corporate Governance, Regulatory Affairs and Legal. Frontline business representatives will join in 2019. The Sustainable Energy Forum (SEF) also co-ordinates products and services that help business and corporate customers to transition to a low carbon economy.

As part of our developing **strategy** to address climate change, we are helping to accelerate the transition to a low carbon economy by supporting our customers and integrating climate change into core business decision making. To support this, RBS is currently undertaking climate scenario analysis across our main lending portfolio. Two scenarios are being considered: a 'Business as Usual' 3.7°C rise and a 'Paris Agreement' 2°C rise. The time frames used for analysis are aligned to RBS strategy: short 0-2 years, medium 3-5 years and long 6-30 years. Both physical and transitional risks are being incorporated. The results of the analysis will inform future strategy and focus areas for more in-depth climate scenario analysis.

Climate **risk management** covers both physical and transitional risks. RBS employs a continuous process for identifying and managing top and emerging risks (refer to page 32), including climate-related risks. The nature and timing of the far-reaching commercial, technological and regulatory changes the low carbon transition will bring are currently uncertain, for our customers and business. The impact of such changes may be disruptive, especially if such changes do not occur in an orderly or timely manner or are ineffective in reducing emissions sufficiently. Whilst these risks are significant and growing, they are not inconsistent with our

strategy to be a leading UK-focused banking service provider to personal and business customers. To help manage climate related risks around individual lending decisions, we use sector-specific Environmental, Social and Ethical risk policies (refer to rbs.com). The Power Generation, Mining and Metals, Oil & Gas and Forestry, Fisheries and Agribusiness policies were updated in 2018 in relation to climate-related risks. To help us manage operational risks, we joined RE100, committing to purchase 100% global renewable energy by 2020.

RBS uses a range of **metrics and targets** to assess our climate-related financial impacts, including operational emissions figures, (refer to the table below (\*) and rbs.com), volumes of sustainable energy sector financing, and proportion of lending associated with high carbon or high climate risk sectors. Our greenhouse gas (GHG) emissions are independently verified each year by an external auditor. As at 31 December 2018, our exposure to the Power and Oil & Gas sectors remains at 1.2% of our total lending exposures. The PRA report 'Transition in Thinking' highlighted the energy, transport, property (domestic

Greenhouse Gas (GHG) Emissions	2014 (Baseline)	2017	2018
Location-based CO <sub>2</sub> e emissions (Scope 1, 2 & business travel) (tonnes)	496,249	312,731	252,340
Scope 1* CO <sub>2</sub> e emissions (tonnes)	30,695	25,578	29,959
Scope 2** Market-based*** CO <sub>2</sub> e emissions (tonnes)	377,337	69,391	57,735
Scope 2 Location-based CO <sub>2</sub> e emissions (tonnes)	360,201	219,979	166,179
Scope 3**** CO <sub>2</sub> e emissions from business travel (tonnes)	105,352	67,174	56,203
Location-based CO <sub>2</sub> e emissions per FTE (Scope 1, 2 & business travel) (tonnes)	5.07	4.08	3.56
Total energy use (GWh)	862	693	619

We have reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. To our knowledge there are no material omissions. Independent limited assurance of total reported emissions in tonnes of CO<sub>2</sub>e, (Scope 1\*, 2\*\* and 3\*\*\*\* location based emissions) has been provided by Ernst & Young LLP. Our reporting year runs from October 2017 to September 2018. \*Scope 1: Emissions from fluorinated gas loss and fuel combustion in RBS premises/vehicles. \*\*Scope 2: Emissions from electricity, district heating and district cooling used in RBS premises. \*\*\* market-based emissions have been calculated using the GHG Protocol guidelines. \*\*\*\*Scope 3: Emissions associated with business travel (air, rail and road) by RBS employees.

These emissions are calculated using The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard revised edition (2004). The emissions reporting boundary is defined as all entities and facilities either owned or under operational control. Emissions factors used are from UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting (BEIS, 2018), CO<sub>2</sub> Emissions from Fuel Combustion (IEA, 2017) or from relevant local authorities as required. For more information please see our website (<https://www.rbs.com/rbs/sustainability/responsible-business/>).

At our AGM in May 2018 we announced new energy lending policies, meaning RBS will not provide project-specific finance to:

- New coal fired power stations
- New thermal coal mines
- Oil sands projects
- Arctic oil projects
- Unsustainable vegetation or peatland clearance projects

RBS will also not provide finance to:

- Mining companies generating more than 40% of their revenues from thermal coal – a reduction from 65%.
- Power companies generating more than 40% of their electricity from coal – a reduction from 65%.

and non-domestic) and agriculture sectors as having particular exposure to climate risks and opportunities and these equated to approximately 44% of total RBS exposures in 2018(\*). These were calculated using Exposure at Default (EAD).

We were recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past ten years (2008- 2018). Between 2014 and 2018 we reduced our operational greenhouse gas emissions (Scopes 1, 2 and 3 – Business Travel) by 49%, exceeding our Science Based Target of 45% by 2020.