

Summary – Power Generation

Why does ABN AMRO have a sustainability requirements for Power Generation?

ABN AMRO strives to create long-term value for its stakeholders, respect human rights, safeguard the environment and curb climate change. The bank recognizes that in its role as a financial service provider it may be exposed to social, climate, environmental and ethical risks through the activities of clients. To manage these sustainability risks, ABN AMRO operates a Sustainability Risk Policy Framework in line with the bank's moderate risk profile.

More specifically, ABN AMRO has formulated sustainability requirements for clients involved in Power Generation. ABN AMRO acknowledges that the energy sector poses significant sustainability risks, such as:

- *Climate change*: the energy sector is one of the largest contributors to global Greenhouse Gas (GHG) emissions, due to its direct impact (such as flaring and fugitive emissions) and the combustion of fossil fuels by other actors/sectors;
- *Pollution*: the extraction, processing and transportation of fossil fuels poses the risk of spills and hazardous waste which, if not dealt with responsibly, may result in pollution of water, soil and/or air;
- *Ecosystems & Biodiversity*: the energy infrastructure as well as the extraction and transportation of fossil fuels may disturb wildlife habitat and lead to the degradation of ecosystems and local biodiversity.
- *Occupational Health & Safety*: employees may be exposed to health & safety risks due to accidents and the effects of hazardous waste and emissions;

What is the scope?

The requirements apply to Power Generation lending clients of ABN AMRO and all its subsidiaries, branches and representative offices and legal entities that are under its control.

Due-diligence standards

For all clients in Power Generation ABN AMRO applies a set of minimum requirements and benchmark criteria. ABN AMRO will only finance clients who comply with all applicable minimum requirements, or have an improvement plan in place to do so within a limited timeframe. The benchmark criteria, which are aligned with international best practices, are used to compare the client's performance with their industry peers on an ongoing basis. An overview of the applicable minimum requirements and benchmark criteria is included in the appendix below.

In addition, the bank applies specific rules for energy activities in sectors that are highly sensitive due to their complex nature and/or diverging stakeholder views. These are nuclear power, shale gas & coal seam gas and oil & gas sector activities in fragile states, conflict-affected and high-risk areas. Credit proposals related to these energy sources are assessed and validated against additional requirements.

ABN AMRO has an inclusive approach. This means that the bank will engage with clients who do not yet meet the bank's minimum requirements, but who are willing and able to do so within a limited timeframe. The exception to this inclusive approach concerns activities on ABN AMRO's [Exclusion List](#); as these activities are simply too risky from a sustainability perspective.

How does ABN AMRO put its standards into practice?

In accordance with its Sustainability Risk Standard for Lending and Project Finance, ABN AMRO puts its sustainability standards into practice through a sustainability risk management process. This covers the following steps; risk determination, risk assessment, approval of the transaction and monitoring and reporting. ABN AMRO reviews (prospective) clients to determine their compliance with the bank's Policy:

- During the client onboarding and review process;
- During the credit approval and review process for clients with an exposure over 1 million Euro.

Appendix 1 - Requirements for Power Generation

Exclusions

In accordance with the ABN AMRO Exclusion List, the Bank will not directly finance the following activities in the energy sector:

- new coal-fired power plants
- new nuclear power plants
- activities resulting in significant conversion or degradation of a critical habitat.

Two-tiered approach

Although power generation activities potentially have high ESE impacts, the extent of the sustainability risks depends strongly on the specific energy source and applied method. In support of the 2015 Paris Agreement on Climate Change and its goal to limit the increase in global average temperature to well below 2°C above pre-industrial levels, ABN AMRO applies a two-tiered approach:

- The first tier consists of assessments at portfolio as well as individual-company level to determine the acceptance of companies (“utilities”) and projects in the power generation sector.
- If the company or project is found acceptable it must be assessed on the sustainability standards for companies and projects in the power generation sector (second tier).
- The sustainability standards of both tiers must also be used for reviews of existing business relations.

Tier 1 part a) Portfolio-level acceptance criteria – mix of electricity generation capacity

1. The Bank focusses on the electricity generation capacity from coal and renewables (excluding hydropower¹) of all companies and projects in the power generation sector receiving and applying for loans at ABN AMRO.
2. For the period 2019-2020 the mix of electricity generation capacity of ABN AMRO’s lending portfolio² of companies and projects in the power generation sector must meet the following criteria:
 - ≤ 28% lending exposure to coal-fired electricity generation capacity
 - ≥ 20% of lending exposure to renewable electricity generation capacity³
3. From 2020 onwards, these criteria must be adjusted in order to continue to meet the (future) calculations of the IEA under the “450 scenario” or any revised scenario in line with updated agreements under the UN Framework Convention on Climate Change.

¹ Hydropower is not included in the calculations used for this policy as this not a relevant energy source in the markets in which ABN AMRO operates.

²Limited to the Corporate and Institutional Banking portfolio

³ These percentages must be calculated by multiplying the committed loan amount with the relative mix of electricity generation capacity of our utilities clients and projects, aggregating to a weighted portfolio average.

Tier 1 part b) Individual-company level

1. The Bank is committed to support utilities that move away from the most carbon-intensive sources of power generation, make the transition towards renewable energy sources and reduce their greenhouse gas emissions. This is reflected in the acceptance criteria for individual companies in the power generation sector that must be applied in the context of client, credit and deal acceptance:
 - A. Does the company have an energy transition strategy?
 - Yes, continue with criterion B
 - No, not acceptable
 - The energy transition strategy should at least address:
 - Measurable targets on the reduction of greenhouse gas emissions
 - Measurable targets on investments in electricity generation from renewable energy sources and/or moving the energy mix of the utility company towards low-carbon energy sources
 - Commitment not to increase coal-fired electricity generation capacity
 - B. Is lignite excluded from the company's electricity generation capacity?
 - Yes, continue with criterion C
 - No, but the company has a short term lignite phase out strategy, continue with criterion 3
 - No, and the company does not have a lignite phase-out strategy, not acceptable
 - C. Does coal-fired electricity generation capacity account for < 30% of the company's total electricity generation capacity?
 - Yes, company acceptable, proceed to tier 2 (paragraph 4.4.3)
 - no, coal capacity \leq 50%, acceptability based on supplementary considerations listed below
 - no, coal capacity > 50%, company not acceptable

Supplementary considerations following criterion C:

- In case coal-fired electricity generation capacity accounts for 30-50% of a company's total electricity generation capacity, the following considerations must be taken into account to determine its acceptability:
 - Trend in CO₂ -emissions;
 - CO₂ -emissions per unit of electricity produced (KWh/MWh) compared to regional average;
 - Efficiency level of the coal-fired electricity generation plants compared to current best practice and regional average;
 - Quality (grade) of the coal used in the power plants;
 - Application of cogeneration or combined heat and power;
 - Capture and storage of carbon and other emissions (e.g. NO_x, SO_x, particulates, ash).

Tier 2 part a) Generic bank standards

The following standards apply to clients that are directly involved in power generation. These utilities may generate electricity from one or several of the following energy sources:

- Fossil-fuel powered (coal, oil/diesel, gas)
- Renewable (wind, solar, hydro, biomass, geothermal, tidal, salinity gradient/osmotic)
- Waste incineration
- Nuclear power

Generic bank standards for utilities	Minimum requirements	Benchmarks
1. Bank clients declare to be in compliance with any laws and regulation applicable to them and to obtain, maintain and ensure compliance with all requisite permits and licences.	X	
2. Bank clients demonstrate their commitment to the management of environmental and social impacts and are required to have an environmental and social policy in place that describes the management of all key environmental and social risks, such as (1) environmental protection (air emissions, water management, waste- and wastewater management), (2) employee and community health & safety, (3) emergency preparedness & response, (4) human rights, and (5) anti-corruption measures.	X	
3. Bank clients have a corporate Environmental and Social Management System (ESMS) in place that ensures compliance with applicable national legislation and internal environmental and social policies. The ESMS is in line with international standards such as ISO:14001 or OHSAS:18001, has clear objectives and targets and includes documented procedures to mitigate, monitor and measure, on a regular basis, the environmental and social impacts of the business activities.	X	
4. Bank clients have clear targets to reduce their greenhouse gas emissions over time. These targets can be either on an absolute level, or defined as a specific emission level per unit of electricity produced (e.g. x Mt CO ₂ / MWh).	X	
5. For new power plants, an independent research report should confirm that the power plant is capable of cost efficiently meeting known future (environmental) regulations. This report should cover adaptations to remain compliant with all relevant laws, regulations and permit requirements during the operational lifetime.	X	
6. Bank clients apply environmental and social criteria to the selection of service providers and contractors. In addition, clients monitor the environmental and social performance of their service providers and contractors.	X	
7. Bank clients engage constructively and openly with stakeholders (local communities in particular), and should address their environmental and social concerns adequately and on time. This includes mechanisms for dealing with complaints and grievances.	X	
8. Bank clients have a good track record, in terms of: <ul style="list-style-type: none"> a) Incident rates (e.g. spills, fires, injuries, fatalities, fraud/corruption cases human rights violations) are low or show consistent decline over time; b) the company has a demonstrated capacity in comprehensive and transparent response management; c) inspection authorities have not reported significant shortcomings in the company's management of environmental and social risks. 	X	
9. Bank clients comprehensively report about their environmental and social performance. This includes disclosure of their greenhouse gas emissions, environment, health & safety statistics. GRI must be used as a benchmark.	X	
10. New power plants and retrofits should adopt Best Available Techniques. As a benchmark, clients should adhere to the European Union's Best Available Techniques Reference Document (BREF) for Large Combustion Plants or BREF for Waste Incineration ⁴ .		X
11. The integration of a combined heat and power system (CHP) should be thoroughly examined during the design phase of a new power plant. If CHP is not integrated in the new power plant, the client should provide a plausible explanation for this decision.	X	
12. Bank clients are committed to the continuous improvement of the management of environmental and social risks, with the aid of quantitative targets for improvement (e.g. zero incidents/zero lost time injuries).	X	
13. Bank clients develop appropriate decommissioning plans for power plants (including rehabilitation of the natural environment where applicable).	X	
14. Bank clients are committed to biodiversity conservation and protection. Biodiversity impacts are identified and managed and mitigated in a Biodiversity Management Plan in order to achieve 'no net loss' (in areas of natural habitat) or 'net positive impact' (in areas of critical habitat).		X
15. Bank clients actively participate in sustainability initiatives such as the Better Coal Initiative, UN Global Compact, the Carbon Disclosure Project, etc.		X

⁴ Best Available Techniques Reference Documents available at: <http://eippcb.jrc.ec.europa.eu/reference/lcp.html>

Tier 2 part b) Additional bank standards

While power generation from non-conventional energy sources is generally less environment-polluting than power generation from fossil fuels, it may pose other environmental and social risks. Therefore, the following requirements apply for power generation from these sources.

Additional bank standards for utilities	Minimum requirement applicable to power generation from:
1. Bank clients involved in the (potential) construction or expansion of wind parks, dams and other plants generating hydro-, tidal, salinity gradient or incinerated waste power conduct a social and environmental impact assessment detailing adequate mitigations of the associated risks prior to the start of construction works.	Wind, Hydro, Tidal, Salinity gradient
2. Bank clients make sure that the (potential) construction or expansion of dams and other plants generating hydropower is preceded by free, prior and informed consent (FPIC) of potentially affected communities including project selection, compensation, resettlement and benefits sharing. Suitable provisions for equitable benefit sharing must be provided to and accepted by affected communities.	Hydro
3. Bank clients have a stakeholder management system and a grievance mechanism in place and actively engage with local communities.	Wind, Hydro, Tidal, Salinity gradient
4. If adverse negative impacts are unavoidable, bank clients shall provide affected communities with fair, appropriate and legally guaranteed compensation and assistance to restore or improve their living conditions.	Hydro, Tidal, Salinity gradient
5. Bank clients minimize the negative impacts on biodiversity. The construction or expansion of wind parks, dams and other plants generating hydro-, tidal or salinity gradient power is preceded by a detailed analysis of the potential impact on biodiversity, including the effects on (migratory) birds and bats, aqua- and marine life.	Wind, Hydro, Tidal, Salinity gradient
6. Bank clients minimize the negative impacts on the eco-system. The construction or expansion of dams and other plants generating hydro-, tidal- or salinity gradient power is preceded by a detailed analysis of the potential impact on the marine and water systems (including water levels and quality) and (international) waterways.	Hydro, Tidal, Salinity gradient
7. Bank clients assure that issues involving international waterways are covered by an appropriate agreement between the beneficiary state and the other riparian. In absence of such an agreement, the client assures that the project must not cause harm to the other riparian.	Hydro
8. The client must assure that a project site is selected through a transparent and participatory process and that reasonable alternatives have been considered based on project characteristics, potential environmental and social impacts, as well as the feasibility of mitigation requirements.	Hydro
9. If a project classified as high risk/category A, the client must involve an independent third party in the project assessment and/or monitoring process.	Hydro
10. If a project classified as high risk/Category A, a third party must confirm the project's compliance with all applicable World Bank Group safeguards and IFC Performance Standards.	Hydro
11. For the construction of dams, bank clients apply the seven principles for dam building of the World Commission on Dams (WCD).	Hydro
12. Banks clients assure that no persistent organic pollutants, no harmful concentrations of other toxic pollutants and ashes and a minimized amount of greenhouse gases are emitted.	Waste incineration
13. The source of the biomass complies with the ABN AMRO Sustainability Sector Policy for Agri Commodities.	Biomass