Sustainability Risk Policy for Lending

Why does ABN AMRO have a Sustainability Risk Policy for Lending?

The bank's guiding principles on sustainability, as defined by the ABN AMRO Sustainability Risk Policy, are implemented by means of underlying policies for the relevant bank activities: lending, investment, procurement and product development. These policies aim at fully incorporating sustainability into the bank's daily business, and bolster the bank's sustainability risk management through the integration of Environmental, Social and Ethical (ESE) standards in bank activities.

What is the purpose and scope of the Sustainability Risk Policy for Lending?

The purpose of the Sustainability Risk Policy for Lending ('the Policy') is to define the sustainability risk management process for ABN AMRO's lending activities in order to ensure that lending transactions are managed in accordance with the bank's sustainability risk principles. The policy is in line with the bank's core values and business principles, its sustainability risk appetite and the "Three Lines of Defence" model.

All lending transactions are subject to the Policy. The Policy applies to ABN AMRO and all its subsidiaries, branches, representative offices and legal entities that are under its control. All bank employees involved in lending are expected to know the Policy and act accordingly.

For project finance engagements, the bank follows the Equator Principles, a common baseline and framework established among banks for the implementation of environmental and social procedures and standards for project financing.

What standards does ABN AMRO apply to its lending activities?

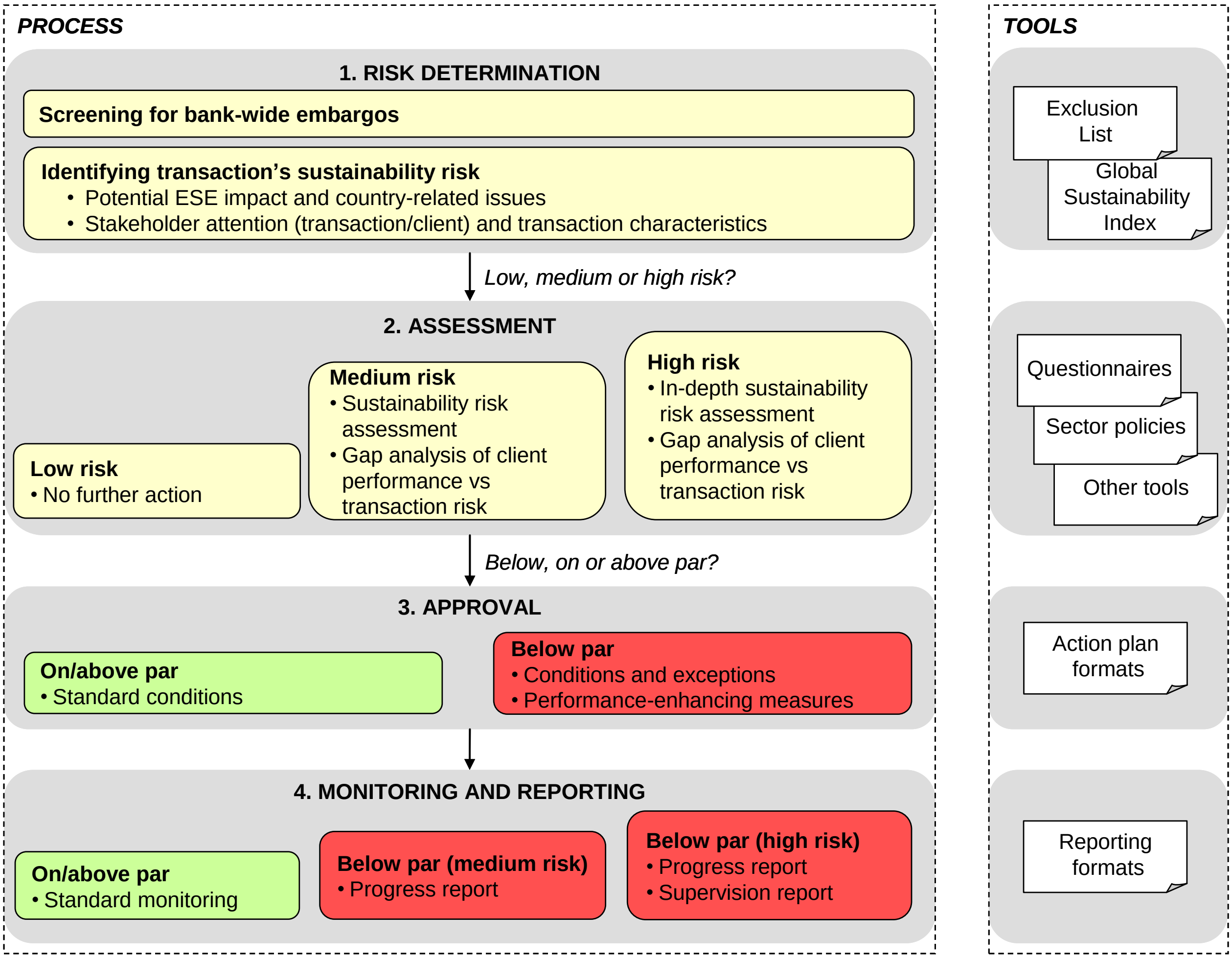
As described in the Sustainability Risk Policy, ABN AMRO's sustainability risk management is guided by five Sustainability Risk Principles. In all bank operations, including lending transactions, ABN AMRO adheres to these five principles:

- Sustainability risk management is a driver for quality improvement
- The bank is responsible for its actions and its decisions to engage with business relations
- The bank strives for an inclusive approach and will enter into a dialogue with its business relations
- The bank will not engage in activities that do not meet its ESE standards
- The bank engages actively and openly with its stakeholders regarding sustainability risk

How does ABN AMRO put its standards into practice in lending operations?

Based on these five sustainability risk principles, the bank's sustainability risk management process for lending consists of four steps: (i) risk determination; (ii) assessment; (iii) approval; and (iv) monitoring and reporting. This process is depicted in the figure below.

The application is handled according to the bank's 'Three Lines of Defence' (3LoD) risk management system. This approach ensures that sustainability risk management has a firm basis within the organisation by dividing risk management responsibilities between different bank roles. The first line of defence (business management) has risk ownership, the second line (risk management and supporting functions) has risk control, while the third line (audit) verifies risk assurance.



Risk Determination

On the basis of the Exclusion List, the transaction and the client's activities are screened for a bank-wide embargo on activities considered unacceptable from a sustainability risk perspective. For this embargo, no exceptions under this policy are allowed without approval from the Managing Board. Following the screening, the sustainability risk level (low, medium, high) of the transaction is identified on the basis of ABN AMRO's *Global Sustainability Risk Index*. This index indicates a sustainability risk level based on the business activity (the "what") and the location (the "where") of the transaction. The sustainability risk level can be adjusted to reflect the existence of stakeholder concerns and the transaction's characteristics.

Assessment

The second step of the sustainability risk management process is the assessment of the client's sustainability performance by means of due diligence procedures. The purpose of this assessment is to verify whether the sustainability risks are adequately mitigated and managed by the client. The due diligence intensity depends on the risk level, as shown below.

- *Due diligence of low-risk transactions* consists of an assessment of compliance with applicable (inter)national law.
- *Due diligence of medium-risk transactions* consists of a generic sustainability risk assessment to assess whether the client's sustainability performance meets the bank's standards for medium-risk transactions (as defined in the applicable sector-specific and cross-sectoral sustainability policies).
- *Due diligence of high-risk transactions* consists of a thorough sustainability risk assessment to assess whether the client's sustainability performance meets the bank's standards for high-risk transactions (as defined in the bank's sector-specific and cross-sectoral sustainability policies).

For high-risk transactions, the bank's due diligence involves a detailed and in-depth assessment based on specific tools and methods developed for the relevant business activity or type of client, and includes an in-depth assessment of the client's capacity, commitment and track record for managing the ESE risks of the transaction within the country context. This assessment should also look in detail at the client's various mitigation measures for addressing ESE impacts; including adoption by the client of good international standards (including ambient and discharge standards), and the client's supply chain management. Furthermore, it should review, where applicable, principles related to corporate transparency, accountability and stakeholder engagement.

Approval

The third step is approval of the transaction from a sustainability risk management perspective. If the due diligence process leads to the conclusion that the client's sustainability performance does not meet bank standards, the bank will agree with the client on performance-enhancing and/or monitoring measures that focus on bridging the gap between the client's current sustainability performance and the required performance. Such measures typically include: adoption of good international standards, including ambient and discharge standards; mitigation of negative ESE impacts; and, where applicable, measures related to corporate transparency, accountability and stakeholder engagement.

Monitoring

The fourth step, monitoring, focuses on lending transactions with a high sustainability risk level. The monitoring effort will be commensurate with the scope of the identified gap between the client's current sustainability performance and the required performance.