What is the purpose of this policy?

Environmental, Social and Governance risks – also referred to as ESG or sustainability risks - can affect the business model of the bank and be a source of both risks and opportunities. For example, the consequences of climate change can impact our clients and result in financial losses. But taking into account sustainability risks will also lead to increased sustainable investments and the financing of sustainable activities, hence presenting opportunities. Both risks and opportunities are topic of international agreements and regulatory developments. The Sustainability Risk Policy defines the framework for managing sustainability risks. It sets rules for the management of sustainability risks within ABN AMRO in line with the bank’s risk appetite and enterprise risk management framework.¹

What is the scope of this policy?

This policy applies to ABN AMRO Bank N.V. and all its subsidiaries, branches, representative offices and legal entities that are under its control (together referred to as ‘ABN AMRO’ or ‘the bank’), unless explicitly stated otherwise.

What are sustainability risks?

Sustainability risk is defined as the risk that environmental, social or governance related issues or trends have a financial and/or non-financial impact on the bank. Issues relate - but are not limited to - the following:

- **Environmental**: climate change (including climate impact and physical and transition risks), biodiversity loss, natural resources depletion and pollution;
- **Social**: substandard working conditions, forced labour and child labour, human trafficking, indigenous peoples’ rights, privacy, animal welfare and public health;
- **Governance**: corporate governance (e.g. remuneration and diversity), corporate behaviour (e.g. corruption or bribery) and ethical business conduct.

Environmental risks comprise the following risk drivers:

- **Transition risk** refers to the bank’s financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy.

¹ All procurement activities as well as Human Resources are out of scope of this policy and subject to the ABN AMRO Procurement Policy
- **Physical risk** refers to the direct financial impact of a changing climate (for example flooding) and environment degradation.

There are two perspectives of sustainability risks:

- **Inside-out risk**: the impact of the bank and its clients on people, climate and environment for example in the form of greenhouse gas emissions, pollution and human rights infringements;
- **Outside-in risk**: the impact of environment and climate on the bank through the bank’s client portfolio’s, for example the risk of biodiversity loss on the agriculture portfolio of the bank or the climate transition risks related to the energy portfolio of the bank.

Sustainability risk is a driver other risk types, such as credit risk, operational risk, market risk and liquidity risk. It can materialize in the short term (directly), the medium term (1-5 years) and the long term (5-30 years).

**How does ABN AMRO govern sustainability risk?**

Sustainability risk is a fundamental part of ABN AMRO’s strategy to accelerate the sustainability shift, which is centered around three sustainability themes: climate change, circularity and social impact. The Executive Board (‘ExBo’) is accountable for the management of sustainability risk in the bank. The Sustainability Advisory Committee (SAC) has been mandated to assist the ExBo in its oversight of embedding of the sustainability strategy.

To constrain sustainability risks within acceptable levels at bank level, the bank sets Risk Appetite Statements (RAS) and limits. The risk appetite must be in line with the moderate risk profile of the bank and address medium and long-term impacts of sustainability risks. This is ensured through quantitative and qualitative risk indicators, addressing both inside-out and outside-in risks.

Sustainability Risk is identified in ABN AMRO’s risk taxonomy as a material sub-risk type under Business Risk, and thus requires its own risk management framework. This operates in accordance with the bank’s ‘three lines of defence’ model.

**What is the enterprise risk management framework for sustainability risk?**

The Enterprise Risk Management framework for Sustainability Risk sets out requirements for the identification, measurement, response & mitigation, and monitoring & reporting of material sustainability risks:

1. **Risk identification** - The risk identification and materiality assessment (RI&MA) process determines the most significant risks to the bank’s ability to realize its objectives and execute its strategy.

2. **Risk measurement** - From a regulatory perspective, capital will be held against existing risk types when they are driven by sustainability risk. These include credit risk, market risk, operational risk and liquidity risk. From an economic perspective, capital adequacy for sustainability risk should be assessed based on an internal assessment of the material risks that may impact the capital position. Climate-related and environmental risks must be taken into account in the stress testing programme of the bank to assess the possible impact of climate and/or environment related stress on the capital position of the bank. Climate-related and environmental risks also are topic of the bank’s scenarios analyses. The results of stress testing and scenario analyses must be taken into account when defining the risk appetite and its limits. This ongoing process is reflected in a formal ICAAP (Internal Capital Adequacy Assessment Process) report in which the bank thoroughly evaluates the adequacy of management sustainability risk in general, and climate-related risks, and the sustainability risk control framework. The bank reports on the ICAAP to ECB annually.
3. **Risk response** - The bank must avoid sustainability risks that, after considering the impact of mitigating action, are outside the bank’s risk appetite. Measures must be taken to reduce or mitigate sustainability risks, these can be taken on portfolio (i.e. excluding sectors, limiting sectors, setting requirements for sectors) or individual client level (modifying credit conditions for “best-in-class” borrowers, entering in engagement, agreeing on measures to be taken by clients).

4. **Risk monitoring and reporting** - The purpose of sustainability risk monitoring and reporting is to ensure that identified sustainability risks remain within the approved Risk Appetite limits. Monitoring whether sustainability risks and, in particular climate-related risks are in line with the bank’s risk strategy must be done at bank-wide level (by Central Risk Management) and at individual client level (by Credit Risk). The Risk Appetite Statement can be used to monitor the sustainability the bank is willing to accept. Internally, the sustainability risk profile of the bank against the risk appetite limits, the results of stress testing and scenario analysis of climate related risks, the status of issues and a summary of the status of remediation plans to address identified issues, and an overview of accepted risks are reported to the Group Risk Committee and the ExBo. ABN AMRO publicly discloses information on its sustainability risk profile. The information is disclosed in, among others, Annual Reports, Interim Financial Reports and other non-financial reports. In the external reporting, the bank ought to adapt and integrate the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) in a manner consistent with the EU Non-Financial Reporting Directive.

**How are clients assessed in relation to sustainability risks?**

All (potential) new clients are screened for bank-wide embargoes, adverse media relating to ESG topics, involvement in defence related activities and involvement in sensitive sectors from a sustainability perspective. No clients shall be accepted in breach of the ABN AMRO Exclusion List or ABN AMRO Controversial Weapons List without approval of the ExBo. Enhanced, and more frequent, due diligence is performed in case of adverse media, defence related activities and involvement in sensitive sectors. In case of involvement in sensitive sectors, the due diligence must include verification that the potential client has taken adequate measures to mitigate the sustainability risks stemming from its business operations and has an acceptable track-record.

In addition, to this due diligence performed in the context of new client take on and client review, enhanced due diligence is performed if the client applies for a credit facility. More information on sustainability risk in relation to lending can be found in the Sustainability Risk Policy for Lending & Project Finance.