ABN·AMRO

Our Risk Profile – Sustainability Risk

Summary – Sustainability Risk Policy

What is the purpose of this policy?

The Sustainability Risk Policy describes the main principles and requirements for managing the Environmental, Social and Governance risks, referred to as ESG or sustainability risks. It defines minimum requirements and sets rules for the management of ESG 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?

The sustainability risk is defined as the risk of any negative financial and non-financial impact on the bank stemming from the current or prospective impacts of ESG factors on the bank's counterparties or invested assets. The ESG risk is considered both as a standalone risk and as a risk driver of other material risks faced by the bank.

- *Environmental risk*: The risk of any negative financial and non-financial impact on the bank stemming from the current or prospective impacts of environmental factors on the bank's counterparties or invested assets, including factors related to the transition towards the following environmental objectives: (a) climate change mitigation; (b) climate change adaptation; (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems. Environmental risk includes both physical risk and transition risk:
    - *Physical risk* means the risk of any negative financial impact on the bank stemming from the current or prospective impacts of the physical effects of environmental factors on the bank's counterparties or invested assets.
    - *Transition risk* means the risk of any negative financial impact on the bank stemming from the current or prospective impacts of the transition to an environmentally sustainable economy on the bank's counterparties or invested assets.

[1] All outsourcing activities as well as all activities that fall under the scope of employee relations are out of scope of this policy and subject to the Third Party and Outsourcing Risk Policy and Human Resource Risk Policy respectively.

- *Social risk*: The risk of any negative financial and non-financial impact on the bank stemming from the current or prospective impacts of social factors on the bank's counterparties or invested assets. Examples of social factors include but are not limited to worker health and safety, child and forced labour, human rights, human trafficking, indigenous people's rights, privacy, public health, gender equality and animal welfare.
- *Governance risk*: The risk of any negative financial and non-financial impact on the bank stemming from the current or prospective impacts of governance factors on the bank's counterparties or invested assets. Examples of governance factors include but are not limited to corporate governance (e.g. remuneration and diversity), corporate behaviour (e.g. corruption and bribery), strategy, culture and ethical business conduct.

The concept of 'double materiality' is of particular importance for defining ESG risks. Both perspectives are included in the definitions of ESG risk. It recognises that the bank can be (a) impacted by or (b) have an impact on ESG risks either at the company level or through their core business activities:

- *Outside-in perspective (financial materiality):* The economic and financial activities of counterparties or invested assets can be negatively impacted from the outside-in by environmental or social factors, affecting the value of such activities which might translate into financial impact on the bank.
- *Inside-out perspective (environmental and social materiality):* The economic and financial activities of counterparties or invested assets can have a negative impact on environmental and social factors, which could in turn become financially material when this impact negatively affects the value of these activities and translate into financial impact on the bank.

ESG risks materialize through the traditional risk types over the short term (within a year), medium term (1-5 years) or long term (5 years and beyond) after environmental, social or governance related events occur. The risks can materialize both during and after the event occurs. Transmission channels are the causal chains linking ESG risk drivers to their impact on the Bank through the counterparties and invested assets.

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 is accountable for the establishment of an effective ESG risk management framework in the Bank, and for setting, approving and overseeing the bank's strategy, including the sustainability pillar.

The Chief Risk Officer is the member of the Executive Board who is responsible for the management of ESG risks. The sustainability risk is managed like all other material risk types based on the enterprise risk management framework and the three lines of defense model.

The Group Sustainability Committee has been mandated to assist and support the Executive Board and its delegated committees in its ESG oversight and strategy for the entire ABN AMRO group. The Engagement Committee (EC) is mandated to oversee the Bank's engagement process with clients with the aim of ensuring that adequate measures are taken to operate within the chosen ESG Risk profile of the Bank.

The Group Sustainability Committee maintains oversight on ESG commitments. An ESG commitment is an obligation for the Bank or part of the Bank to act or to refrain from acting in the environmental, social or governance context. It includes external commitments to subscribe to (inter)national initiatives on the topic of ESG. Material ESG commitments are subject to prior advice from the Group Sustainability Committee and subsequent approval by Executive Board.

The Strategic Risk Appetite Statement of ABN AMRO expresses the Bank's risk strategy of pursuing a moderate risk profile Managing ESG risks is an important component of achieving the Bank's risk strategy objectives given that ESG risks is both a stand-alone risk and acts as a driver of other risk-types. One of ABN AMRO's strategic objectives is to accelerate carbon emission reduction to reach our Net Zero commitments as detailed in the ABN AMRO Climate Strategy. The Bank's Sustainability risk appetite must define the medium and long-term impacts of ESG risks on the Bank's financial position. Quantitative and qualitative risk indicators are used to monitor progress in achieving these impacts from both the inside-out and outside-in perspective.

What is the ESG risk managed bank-wide?

In line with the Enterprise Risk Management framework, ESG risks are managed using the following core activities:

1. Risk identification: The bank's risk identification and materiality assessment (RI&MA) process is used to pinpoint the most significant ESG risks faced by the bank while considering double materiality.

2. Risk measurement: Different instruments are in place to assess the impact of ESG risks on the bank. First, the impact of ESG risks on capital adequacy is evaluated. Second, stress testing includes scenarios that are based on climate-related and environmental risks to determine the impact of these scenarios on the capital position of the Bank. The results of stress testing for environmental risks must be taken into account when defining the ESG risk appetite. This ongoing process is reflected in an annual ICAAP (Internal Capital Adequacy Assessment Process) report in which the bank thoroughly evaluates the adequacy of the management of ESG risks. The bank reports on the ICAAP to ECB annually. Third, before taking an investment or credit decision an assessment is performed on the client's or investee's ESG risk profile.

3. Risk response: The bank takes mitigation measures to ensure that ESG risks fall within with the bank's risk appetite and strategy. When determining mitigation actions, the concentration of the ESG risks along with the impact on other risk types must be considered. Measures can be taken on portfolio level (i.e. exclusion of specific (sub)sectors, activities or borrowers from credit granting or other financial services) or individual client level (i.e. incorporation of assessment of ESG risks as part of the client due diligence processes, credit granting process, investment decision making process).

4. Risk monitoring: The purpose of the sustainability risk monitoring is to ensure that identified ESG risks remain within the approved risk appetite. The monitoring of ESG risks is performed at bank-wide level, portfolio level and at the level of individual clients. On an annual basis, as part of the formal Internal Capital Adequacy Assessment Process (ICAAP), the Bank thoroughly evaluates the adequacy of the management of ESG risks including the ESG risks control framework.

5. Risk reporting: The quarterly Enterprise Risk Management (ERM) reports to the Group Risk Committee and the Executive Board include an evaluation of the bank's ESG risk profile against risk appetite thresholds along with experts' judgments on emerging ESG risks. The ERM Report for Sustainability Risk is also reported to the Supervisory Sustainability Committee (SSC) each quarter.

6. Strategic decision-making: The Executive Board evaluates on a regular basis the current strategy based on the output of the risk management process and emerging risks.

How are clients assessed in relation to sustainability risks?

All (potential) business clients are screened for bank-wide restrictions; ESG-related adverse media; involvement in defense related activities; and involvement in sensitive sectors from a sustainability perspective. In case of deviation from the ABN AMRO Exclusion List or the ABN AMRO Controversial Weapons List, the approval of the Executive Board is required. Enhanced due diligence must be performed in case of ESG-related adverse media, involvement in defense related activities and/or involvement in sensitive sectors. In case of involvement in sensitive sectors, the due diligence must include the verification that the potential client has taken adequate measures to mitigate the ESG risks stemming from its business operations and has an acceptable ESG-related track-record.

In addition to this due diligence performed on new client and during client reviews, enhanced due diligence is performed if the client applies for a credit facility. Sustainability risk is measured by the business while a validation by the second line of defense is performed for all clients active in sectors classified as high risk from a sustainability perspective.