

# Summary – Sustainability Risk Policy for Lending & Project Finance

## Why does ABN AMRO have a Sustainability Risk Policy for Lending and Project Finance?

ABN AMRO strives to create long-term value for its stakeholders, to respect human rights and safeguard the environment. The Bank recognizes that, in its role as a financial service provider, it may be exposed to social, 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 and strategic pillar to support clients' transition to sustainability. This policy provides the requirements for ABN AMRO's *lending and project finance* activities and the framework for loans with sustainability or acceleration features.

## What is the scope of this policy?

This policy applies to ABN AMRO and all its subsidiaries, branches and representative offices and legal entities that are under its control.

This policy distinguishes between:

- Lending; loans over EUR 1 million for our corporate clients
- Project finance; subcategory of lending and generally used for the financing of long-term, large scale infrastructure, industrial projects or public services
- Loans with sustainability or acceleration features; loans that incentivize client's sustainability transition

## What requirements does ABN AMRO apply for Lending?

For Lending ABN AMRO applies the following four steps of the sustainability risk management process:

1. Risk determination - The business line must screen the client and the client's activities for bank-wide embargoes, in particular the ABN AMRO Exclusion List and the ABN AMRO Controversial Weapons List. In absence of an embargo, the business line must identify the client's sustainability risk (low, medium or high) based on the sector(s) and country(ies) in which the client operates.
2. Risk assessment – The business line must assess whether the client meets the Bank's sustainability policies and statements as defined in the Sustainability Risk Policy Framework. Due diligence takes place at an intensity level that corresponds with the determined sustainability risk level (low, medium or high).
  - a. Low Risk – Business line must verify that the client complies with applicable national and international legislation.
  - b. Medium Risk – Business line must verify that the client complies with regulation and meets the Bank's sustainability requirements as defined in the Sustainability Risk Framework.
  - c. High Risk – Business line must verify that the client complies with regulation and meets the Bank's sustainability requirements. In addition, second line must validate this first line assessment.

The outcome of the risk assessment is that the client scores 'on par', 'above par' or 'below par' with the bank's requirements.

3. Risk mitigation - In case the client's sustainability performance is 'on par' or 'above par', the business line can proceed with the credit process. In case the client's sustainability performance is 'below par', the transaction can only be accepted if the business line has ensured that the client is willing and able to meet the requirements in the ABN AMRO Sustainability Risk Policy Framework in due time. To this end the business line will set conditions. Also, the second line can set conditions to improve the sustainability performance of the client. The credit approval authority oversees that the procedures regarding determination and assessment of sustainability risk have been followed and integrated in the credit approval process.
4. Risk monitoring, reporting and engagement - The business line must monitor - and report on - the (continued) compliance of the client with the requirements in the Sustainability Risk Policy Framework within the regular credit review processes. If needed the business line will engage with the client to ensure that conditions are met and sustainability performance of the client is improved. The credit approval authority oversees that conditions are met. The bank may decide to embark on a high intensity engagement trajectory in case a considerable effort is needed from the client to meet the bank's conditions. This is a more formalized trajectory including governance of the bank's Engagement Advisory Committee. In addition to individual client engagement, the Bank can also decide to engage with a group of clients on a specific topic or theme. Thematic engagement is also overseen by the Engagement Advisory Committee.

### **What requirements does ABN AMRO apply for Project Finance?**

More stringent requirements based on the Equator Principles apply to project finance and project related corporate loans, as these may be associated with greater sustainability risk due to their scope and character. The ten Equator Principles are integrated in our governance as followed:

1. Review and categorization of the project – The business line categorizes the project based on the magnitude of its potential environmental and social risks, as determined by the classification of the Bank (described under Risk Assessment for Lending) and the International Finance Corporation (IFC):
  - a. Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.
  - b. Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
  - c. Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.
2. Environmental and social assessment of the project – For all Category A and Category B Projects, the business line ensures that the client conducts an assessment that addresses the relevant environmental and social risks of the project and proposes measures to minimize, mitigate, and offset adverse impacts. For Category A and, as appropriate, Category B projects an Environmental and Social Impact Assessment shall be conducted including human rights impacts and climate risks.
3. Environmental and Social Standards applicable to the project – The business line evaluates the project's compliance with the Bank's own sustainability requirements embedded in the Sustainability Risk Policy Framework, the relevant host country legislation combined with IFC Performance Standards as guidance for projects located in Designated Countries<sup>1</sup>, and IFC Performance Standards and the World Bank Group Environmental, Health and Safety Guidelines for project located in Non-Designated Countries.
4. Environmental and Social Management System and Equator Principles Action Plan – For all Category A and B Projects, the business line verifies that the client develops and maintains an Environmental and

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<sup>1</sup> The list of Designated Countries can be found on the [Equator Principles](#) website.

Social Management System and Plan. Where the applicable standards are not met to the Bank's satisfaction, the client and the business line develop an Equator Principles Action Plan.

5. Stakeholder Engagement – For all Category A and B Projects, the business line verifies that the client effectively engages stakeholders in a structured and appropriate manner. This engagement includes the public disclosure of (a summary of the) Environmental and Social Assessment documentation, and an informed consultation and participation process for projects with significant adverse impacts on communities. For projects affecting indigenous peoples, the business line verifies that the project complies with the rights of indigenous people contained in relevant national and international law. For projects that meet special circumstances<sup>2</sup>, the business line will require a qualified Independent Environmental and Social consultant to evaluate the consultation process with Indigenous Peoples and the outcome of that process against i) host country laws, ii) the IFC Performance Standard 7 and iii) the extent to which Free Prior and Informed Consent (FPIC) has been obtained.
6. Grievance Mechanism – For all Category A and, as appropriate, Category B projects, the business line verifies that the client establishes a grievance mechanism that resolves concerns promptly, through an understandable, transparent and culturally appropriate consultative process that is readily accessible, at no cost, and without retribution to the party that originated the issue or concern.
7. Independent Review of the project – For all Category A and, as appropriate, Category B projects, the business line verifies that the client assigns an independent consultant or external expert to carry out a review of the Environmental and Social documentation required under Equator Principle 2, 3, 4 and 5.
8. Covenants between the Bank and the client – The contract between the Bank and the client includes a covenant on the client's compliance with all relevant host country environmental and social legislation. For Category A and B projects, this also includes clauses on compliance with the Environmental and Social Management Plan and Action Plans, periodic reporting and, if applicable, a decommissioning plan. In case of non-compliance, the Bank works with the client on remedial actions. If the client fails to comply within an agreed period, the Bank reserves the right to exercise appropriate remedies, including calling an event of default.
9. Monitoring of the project – The business line continues to monitor and assess the Project's compliance with the Equator Principles after financial close. For Category A and, as appropriate, Category B projects, the client is required to appoint external experts to verify its monitoring information.
10. Reporting and transparency – For Category A and, as appropriate, Category B projects, the Bank requests clients to publish a summary of the Environmental and Social Impact Assessments online, and to publicly report on GHG emission levels. At least annually, the Bank reports publicly about its Equator Principles implementation processes and transactions.

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<sup>2</sup> These circumstances are: 1) Projects with impacts on lands and natural resources subject to traditional ownership or under the customary use of Indigenous People 2) Projects requiring the relocation of Indigenous People from lands and natural resources subject to traditional ownership or under customary use; and 3) Projects with significant impacts on critical cultural heritage essential to the identity of Indigenous Peoples, or Projects using their cultural heritage for commercial purposes

## How does ABN AMRO finance the sustainability shift?

ABN AMRO aims to accelerate the sustainability shift by increasing its financial support for sustainable activities, assets, projects or companies. The Bank distinguishes between four types of loans that can accelerate the shift. All have to meet the general lending requirements listed in the previous section of this summary.

1. Sustainable finance loans – loans for which the proceeds are used for an economic activity that complies with the technical criteria in the EU Taxonomy and the threshold criteria as defined in the technical annex of the EU Technical Expert Group on Sustainable Finance. The client must be ‘on’ or ‘above par’ with the bank’s Sustainability Risk Policy Framework.
2. Acceleration finance loans - loans that contribute to accelerating the sustainability shift but are not (yet) or not entirely eligible under the EU Taxonomy or that contribute to social impact. The loans are provided to companies that involved in accelerating activities, assets or projects as defined by the Sustainability Acceleration Standard. The client must be ‘on’ or ‘above par’ with the bank’s Sustainability Risk Policy Framework.
3. Sustainability - linked loans - loans which incentivize the borrower’s achievement of ambitious, predetermined sustainability performance objectives, measured through internal key performance indicators or scores on external sustainability benchmarks. A second line validation is mandatory.
4. ESG Best in class loans - loans that are provided to clients that are identified as frontrunners within their industries in terms of environmental and social responsibility as indicated by one of more of international rankings. A second line validation is mandatory.

All four categories are further defined within the Sustainability Acceleration Standard. The activities linked to these loans are overseen by the Sustainability Advisory Committee.