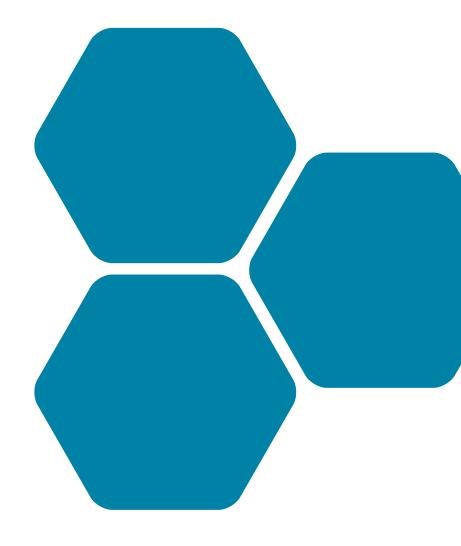


MEASURING, REPORTING, STEERING
– OUR THREE-STEP APPROACH TO
FINANCED EMISSIONS







## WHAT?

ABN AMRO is a global bank based in the Netherlands. It is the third largest bank in the Netherlands,¹ with total assets of €396 billion.² We provide retail, private, commercial and corporate banking services and manage just over €289 billion of client assets.³

Our purpose is "Banking for better, for generations to come". To support our purpose, we have a bank-wide goal to bring our lending and client investment portfolio in line with at least a well-below 2°C scenario and to support the transition to a net zero economy by 2050.4

We have been capturing and reporting the greenhouse gas emissions (GHGs) from our business operations for a number of years. However, the majority of our overall GHG footprint lies in our lending and client investment portfolio – but there was no consistent approach to capturing this information across the industry. To address this, in 2015 we partnered with 13 other Dutch financial institutions, who shared the desire to take responsibility to accelerate the transition to a net zero economy, to launch the **Partnership for Carbon Accounting Financials** (PCAF). PCAF expanded into North America in 2018 and launched globally in 2019.

### The Partnership for Carbon Accounting Financials

PCAF is a "global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments". PCAF's objectives are to make GHG accounting common practice in the financial sector through the development of a global GHG accounting standard and to encourage financial institutions to commit to assess and disclose their financed emissions. Over 100 financial institutions have joined and over 20 have already disclosed their financed emissions.

The Global GHG Accounting & Reporting Standard for the Financial Industry was launched in 2020 and provides detailed methodological guidance to measure and disclose GHG emissions associated with six asset classes to date: listed equity and corporate bonds; business loans and unlisted equity; project finance; commercial real estate; mortgages; and motor vehicle loans. The standard has been reviewed by the **Greenhouse Gas Protocol** and conforms with its requirements.

Using the PCAF standard will allow financial institutions to measure financed emissions from their loans and investments, which provides useful information to identify and manage climate-related transition risks and opportunities. For example, financed emissions can be used as a metric to stress test the resilience of portfolios against climate policies that could have a material effect on the viability of an activity (such as carbon pricing).

- 1. Source: S&P Global Market Intelligence. The World's 100 Largest Banks 2020
- 2. ABN AMRO, Annual Report 2020
- 3. ABN AMRO, Annual Report 2020
- 4. ABN AMRO, Guiding a Bank's Portfolio to Paris
- 5. https://carbonaccountingfinancials.com/about
- 6. Greenhouse gas emissions financed by the loans and investments of financial institutions

In 2016, we disclosed the financed emissions from our residential mortgage portfolio because of the size of the portfolio on our balance sheet. Since 2018, we used PCAF methodology to disclose<sup>7</sup> the emissions financed by our lending and investment portfolios across all asset classes on our balance sheet that currently have a methodology available.8 This included 100% of our residential mortgages of €164 billion, commercial real estate of €7 billion and corporate loans of €93 billion (all numbers based on Exposure at Default). Emissions from corporate loans and non-listed equity were then broken down further by sector. Certain financial products and loans to specific counterparties like governments do not yet have a methodology available that can be used to estimate the GHG emissions. We disclose in the footnotes of the table below what is and is not included.

#### 7. ABN AMRO, Non-financial data & Engagement

#### GHG Emissions of ABN AMRO's lending portfolio

				2020	2019		
Summary table		GHG Emissions (ktCO₂e)	EAD <sup>3</sup> million EUR	GHG emissions per million EUR lent (tCO₂e/mln)	GHG Emmissions (kton)	EAD million EUR	GHG emissions per million EUR lent (tCO₂e/mln)
RoW	Corporate loans & non-listed equity RoW	13,580	40,619	334	14,832	53,734	276
NL	Corporate loans & non-listed equity NL <sup>2</sup>	8,463	52,409	161	8,882	56,999	156
NL	Commercial real estate	333	7,207	46	340	7,028	48
NL	Mortgages	3,353	163,586	20	3,380	163,860	21
	Out-of-scope <sup>1</sup>	-	143,533		*	111,626	0
SCOPE 3:		25,729	407,354	63	27,433	393,247	70

- Clients out -of scope, including consumer lending, institutions, central banks and governments.
- 3 FAD incl. on-balance off balance. Beno. derivatives).

Note: These calculations are in accordance with PCAF Methodology (Partnership for Carbon Accounting Financials carbonaccountingfinancials.com). Calculation excludes consumer loans, other retail and client investments. Please refer to the Annual Report 2020 for the total overview of Exposure at Default per business line.

- The following PCAF Data Quality scores are applicable:
- Corporate loans & non-listed equity RoW: Score 5
   Corporate loans & non-listed equity NL: Score 5
- Commercial real estate: Score 4 Mortgages: Score 5

		GHG Emissions (kton)			GHG Emissions (kt		ions (kton)
	2020	2019	Delta		2020	2019	Delta
Agriculture (A)	4,799	3,969	830	Scientific and technical activities (M)	9	6	2
Minerals (B)	6,168	8,235	(2,066)	Administrative services (N)	76	96	(20)
Industry (C) <sup>1</sup>	1,957	1,842	114	Regional administration (0)	0	2	(2)
Utilities (D)	2,685	1,544	1,141	Education (P)	13	14	(1)
Water distribution (E)	247	310	(63)	Healthcare (Q)	154	141	13
Construction (F)	49	37	13	Recreation (R)	12	14	(2)
Retail (G)	528	796	(268)	Other Services (S)	8	9	(1)
Transport (H)	2,486	2,668	(182)	Activities of households as employers (T)			
Leisure (I)	44	36	8	Extraterritorial organisations (U)		-	
Information and communication (J)	24	47	(23)	No Sector	2,362	3,491	(1,129)
Financial Services (K) <sup>1</sup>	414	449	(36)	Total kton CO <sub>2</sub>	22,043	23,713	
Real estate (L)1	9	8	1	1 Excluding CB CBE			

GHG Emissions of ABN AMRO's lending portfolio, Non-financial data & Engagement 2020, ABN AMRO

For our private banking investment portfolio, we disclosed emissions from €70 billion of client assets (direct and indirect exposure to stocks and corporate bonds, excluding cash). Calculations are also based on PCAF methodology.

#### Private Banking – Emissions Client Assets

The table below contains the carbon emissions of our private banking operations

These calculations are based on PCAF methodology (Partnership for Carbon Accounting

Financials carbonaccountingfinancials.com).

	2020	2019
EUR invested (in millions)	70,287	63,976
Total emissions scope 1&2 (tCO <sub>2</sub> e)	6,633,046	7,155,723
Emissions per million EUR invested	94.37	111.85

Scope: Direct and indirect exposure to stocks and corporate bonds, excluding cash.

For the calculations of the GHG emissions of our Client Assets (derived from ISS), the PCAF Quality Data Score ranges from Score 1 to 4 depending on the data available per company

Private Banking - Emissions Client Assets, Non-financial data & Engagement 2020, ABN AMRO

<sup>8.</sup> Currently out of scope asset classes include consumer lending, institutions, central banks and governments

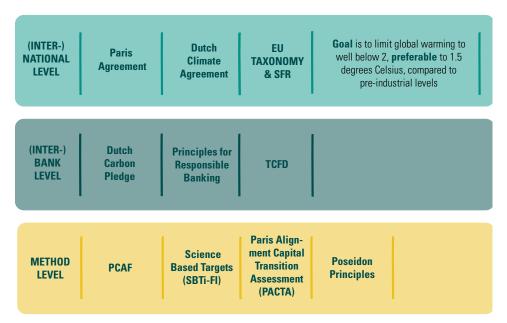
## **WHY**

A key driver for initially measuring our financed emissions was our own ambition to become a more sustainable bank and to help our clients on that journey. To identify the carbon emissions in the portfolios that we finance, we use the PCAF methodology to help us identify where the carbon is on our balance sheet and which clients and sectors we can support in the transition.

Clarity on climate impact is also increasingly what our clients want. For example, we have seen a tremendous growth in private banking clients' attention and appetite for more sustainable investments over the past few years. Our clients' sustainable investments increased to €26 billion during 2020 - well above our target of €22.5 billion - supported by an increase in demand for sustainable contracts and our improved offering of funds. The selection of companies and funds within our sustainable investment products is based on how they operate in regards to the environment, social impact and governance, as well as their financial results. Understanding and reporting on our financed emissions is an important part of supporting these private banking clients.

Alongside this, the regulatory environment is changing. Accounting for financed emissions is likely to become a much bigger part of the regulatory agenda in the next couple of years, becoming mandated rather than optional.

"Experience has shown us that it takes time to get to grips with carbon data and to shift the mindset of an organization, so starting this work ahead of regulatory change has been helpful for us. We would encourage other institutions to get started too." In addition to the evolving regulatory landscape, we are influenced by other significant international, national and financial industry initiatives as we shape our climate strategy and improve our measurement of climate-related risks and reporting of financed emissions in order to align with the Paris Agreement goals, as illustrated in the table below.



This diagram shows various levels of commitments and regulations that influence ABN AMRO's climate actions, **Guiding a Bank's Portfolio to Paris: Our journey of Paris alignment 2021**, ABN AMRO. (SFR refers to the sustainable finance regulation, TCFD is the Task Force on Climate-related Financial Disclosures)

### **HOW**

Measuring and reporting our financed emissions involves a multidisciplinary approach. The finance team collaborates with sustainability, risk and strategy teams as well as commercial business lines.

We take a three-step approach to accounting for and managing financed emissions: measuring, reporting and steering.

#### **MEASURING**

The better the underlying data, the more reliable our reporting can be in terms of transparency and comparability of outcomes, which in turn enables more informed decision making. This is an area that is still being actively developed. There are ongoing debates around methodology, scope and data quality, and it is currently hard to get data at the level of individual clients for some asset classes.

To calculate our financed emissions we use **Statistics Netherlands (CBS)** and **Netherlands Enterprise Agency (RVO)** data and also buy data from various data providers. Not all clients are yet obliged to disclose or measure their own emissions under the current regulatory framework. Until this is the case, we

need to use estimates to be able to report on at least an indication of our financed emissions.

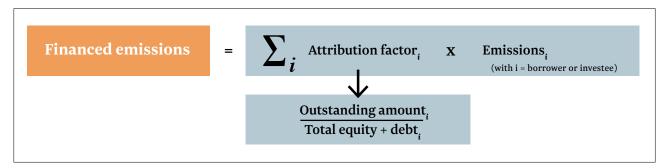
Applying the methodology from the **PCAF Global GHG Accounting & Reporting Standard** for each available asset class, we use emissions data from several sources to calculate the financed emissions of portfolios for a fixed point in time, in line with the end of our financial accounting period. Financed emissions are calculated by multiplying an attribution factor (the borrower or investee's share of total emissions allocated to the loan or investment, specific to that asset class) by the emissions of the borrower or investee, as shown in the formula below.

A data quality score for each asset class is assigned based on the availability and quality

of each data source. The PCAF standard gives guidance on scoring data quality from one to five (one being the highest quality, most certain; five being the lowest quality, uncertain). We can use this to assess where we are and plan a pathway towards higher quality data. We focus on improving the data quality score of the largest carbon-emitting sectors in order to increase the reliability of our measurements, enabling more complete analysis and comparison of results.

Measuring financed emissions sets a baseline we can use to track progress against our emissions-based targets, including net zero by 2050.

Measuring and tracking progress allows us to design strategies and implement actions to reach the emissions targets.



Formula for the general approach to calculate financed emissions, The Global GHG Accounting & Reporting Standard for the Financial Industry, p.38

#### **REPORTING**

Financed emissions data is incorporated into our Annual Report. It is also included in more detail in our Non-financial data & Engagement 2020 report<sup>9</sup> where we have reported the GHG emissions of our lending portfolio (including the breakdown by sector) and of our client investments. Reporting on financed emissions enables our stakeholders to understand the climate impact of our lending and investment activities as well as reinforcing our commitment to aligning our portfolios with at least a well-below 2°C scenario.

With our Mission 2030<sup>10</sup> pledge to make real estate more sustainable, we set a goal to bring all of the buildings that we help finance up to a weighted average energy label A. PCAF methodology assists us in understanding the average carbon intensity for each building so we can drive the actions necessary to improve the energy performance of buildings through sustainable renovations, disposals of older buildings and inflows of new buildings.

We believe in highly transparent external reporting on financed emissions and the methodologies, including PCAF, that we use. This is not an area where it pays to be competitive – developing financed emissions measurement and reporting practices as a sector benefits us all. Sharing feedback and best practices with our peers will help the reporting process to evolve and improve.

We have also piloted a number of science-based tools, scenarios and methodologies to assess and measure the alignment with 2050 net zero emissions targets for different sectors in our portfolio. This includes the Paris Agreement Capital Transition Assessment Tools (PACTA) and the Science Based Targets initiative for Financial Institutions (SBTi-FI). Piloting multiple methods has been an important step for us so that we can actively contribute to platforms and partnerships which will assist the whole financial sector. For further details on the science-based methods that we have piloted across multiple sectors, see Guiding a Bank's portfolio to Paris.

In 2020 we obtained limited assurance for the first time on our total scope 3 emissions number as included in the Integrated Report. Obtaining assurance gives stakeholders a level of comfort in the reported data and the external critique helps us to improve the process where possible. The assurance process in general has also been helpful for us, as it provides a critical external view on the processes we have set up and helps us to improve them where possible.

<sup>9.</sup> ABN AMRO, Non-financial data & Engagement

<sup>10.</sup> ABN AMRO, Mission 2030: Making real estate more sustainable

#### **STEERING**

We use our reported financed emissions data to inform and help guide our approach – the next step is adjusting our products, processes and training – so we can meet our climate commitments of bringing our lending and client investment portfolio in line with at least a well-below 2°C scenario. Use of our financed emissions data helps to steer our target setting process to align our portfolios with our net zero commitment in conjunction with evolving government and regulatory targets. But to be able to steer, we need to measure and report to get a clear sense of the volume of our carbon emissions and how they are distributed across our portfolio.

Analysing the carbon emissions of the investment portfolios of our private banking clients using PCAF methodology provides us with a methodology to think about how we can guide the selection of companies in our clients' portfolios towards alignment with carbon reduction targets and support the transition towards net zero. We believe that it is our responsibility to support and inform our clients to make more sustainable investment choices in order to mitigate their investment risk.<sup>11</sup> For example, in October 2020 we announced that we will give quarterly reports to the clients who use our investment advice and asset management services.

These reports will contain portfolio-level information about the sustainability impact of their investments, including the contribution towards achieving the Paris Agreement goals. With data availability improving as more companies publish their emissions data, the scope for more complete analysis of portfolios will also improve, enabling clients and advisers to steer towards less carbon-intensive portfolios.

<sup>11.</sup> ABN AMRO, Annual Report 2020

<sup>12.</sup> ABN AMRO, Extra insight into sustainability impact of investments for ABN AMRO clients

#### **OVERCOMING CHALLENGES**

There are a number of challenges involved in accounting and reporting for financed emissions. Some of the issues we have faced and how we have approached them include:

- Getting financed emissions on the agenda
  Banks have long to-do lists, so it is easy to
  lose momentum on something that is currently
  optional. Bringing sustainability in general into
  board-level discussions and having an active
  role in initiatives such as PCAF helped to give
  us direction and prioritize this work throughout
  the bank.
- Understanding data

Data quality can vary by asset class and this affects how we can use the data; the conclusions we can draw from less granular data are more limited. For listed investments a lot of good, robust data is available at a highly granular level because these companies report on their emissions. Less data is available for corporate loans, though, so we multiply a

sector average by our exposure, which means our figures are partially based on estimates but slowly improving as more accurate data is becoming available.

- Delivering science-based targets
  The Science Based Targets initiative offers another methodology aimed at calculating and lowering emissions. For the banking sector, this approach is still very new and so applying it can be challenging. To help us navigate this, we have joined the Science Based Targets initiative for Financial Institutions together with a few other banks. Partnerships like this are a way both to enrich our understanding of different methodologies and to play a role in developing useful guidance for our sector.
- Resisting the incentives to divest
   To improve our emissions with the current methodologies available, we would need to divest from carbon-intensive sectors. While

this would make our own balance sheet look greener, it would not have an impact on the total carbon emissions in the world. We need approaches geared towards stewardship, steering towards a focus on transition rather than divestment. This is a sector-level issue, so we participate in various initiatives and work to advance the conversation in this area.

## **NEXT STEPS**

We have started an initiative to see how we can improve data quality – using the PCAF framework – for the sectors in our portfolio where there are bigger transition risks or greater carbon intensity. To achieve this, we will investigate what partnerships exist that could help us access better data and explore what data is available in the market. It is likely that the data collected will support our financial reporting, adding climate-related data into credit risk provisioning and capital requirement calculations. We are developing a detailed roadmap for the next steps in obtaining good quality, robust, third-party data, including the processes involved in understanding and embedding it into risk management and financial reporting.

On the external reporting side, we are working to improve our alignment with the Task Force on Climate-related Financial Disclosures<sup>13</sup> recommendations, the EU's climate supplement to the non-financial reporting directive, and the future Corporate Sustainability Reporting Directive that will come into force for the 2023 reporting period. We continue to track developments in the regulatory landscape to ensure that we are well prepared and have the tools and data available to meet the introduction of mandatory reporting requirements.

We think science-based targets will help us to develop our stewardship activities towards Parisaligned portfolios, but further work is needed to develop methodologies and frameworks including the SBTi-FI, PCAF and PACTA. We will work with other banks, stakeholders and governments to develop methods and improve data to help enable this.<sup>14</sup>

## **TOP TIPS**

### **START NOW**

The methodologies and approaches for measuring and reporting financed emissions in banks are not yet perfect, but if you wait until it is mandated then you will be starting too late. It takes time to embed the relevant data collection, manipulation and analysis into processes, controls and strategies. The time to get involved is now.

### ...AND START SMALL

Start with your most material portfolio and a small team, sponsored by senior management. From there you can build up your knowledge before you move on to a second portfolio. You will be able to refine your approach and engage more staff as you go, increasing your coverage from a solid foundation.

### **COLLABORATE INTERNALLY**

Grow a community within your organization around measurement and reporting of financed emissions. Developing in this area will involve the work of many teams, including finance, risk, compliance and sustainability teams. You need to go together on this journey and work in partnership.

### ...AND COLLABORATE EXTERNALLY

Financed emissions is a rich area for collaborating. There are a number of initiatives and pilots that you can get involved in. Nobody has all the answers yet, but by becoming part of the community that is working on it, you can guide the focus, learn from others and help to find the solutions. This will stand you in good stead in your own work on financed emissions.

# **GET IN TOUCH OR FIND OUT MORE**



@PrincesA4S



The Prince's Accounting for Sustainability Project (A4S)



**ThePrincesA4S** 



info@a4s.org



www.accountingforsustainability.org