TCFD REPORTING EXAMPLE
ABN AMRO

Insights for finance teams
This TCFD reporting example focuses on how ABN AMRO have used scenario analysis and how its finance team have supported TCFD implementation.

ABN AMRO Bank N.V. is headquartered in Amsterdam, Netherlands. It is the third largest bank\(^1\) in the Netherlands with total assets of €375 billion\(^2\) and assets under management of €296.5 billion\(^3\). Sustainability is an integral part of ABN AMRO’s corporate strategy, in which supporting clients’ transition to sustainability is a key strategic pillar.

The bank reported against the TCFD framework for the first time in its 2019 Annual Report. Reporting in line with each of the four thematic areas enabled the company to show the breadth of its TCFD response. This approach also revealed the key areas where implementation of the recommendations can be enhanced, with some of the planned ‘next steps’ referred to in the bank’s disclosures.

This document sets out extracts of the relevant disclosures from the ABN AMRO Group 2019 Annual Report and A4S’s analysis of these disclosures against the TCFD guidance, with a focus on the use of scenario analysis. It also highlights the role of finance and the value finance teams can bring to the process. Additional resources can be found by clicking the links below.

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\(^1\) https://thebanks.eu/articles/major-banks-in-the-Netherlands
OVERVIEW OF ABN AMRO’S TCFD COMMITMENT

ABN AMRO has explicitly stated its commitment to implementing the TCFD recommendations, showing investors that the company intends to provide full disclosure over time.

The European Commission published specific guidelines, which ABN AMRO has referenced here. These guidelines have informed how the bank has integrated the TCFD recommendations into its strategy and risk management processes.

Working with The United Nations Environment Programme Finance Initiative (UNEP-FI) on the TCFD Pilot Phase 2 demonstrates ABN AMRO’s commitment to transparency and to encouraging its peers to disclose climate risks and opportunities with similar openness. Collaboration pools knowledge and encourages sector standardization, both of which can make disclosures more useful.

Top tip
Making a public commitment to implement the TCFD recommendations shows leadership buy in and a recognition that climate change can have a financial impact. It indicates to investors that you are taking the recommendations seriously, and can also help you to engage teams internally on the climate agenda. Click here to download our guidance.

CFOs, pension fund chairs and accounting body CEOs have signed the A4S TCFD Statements of Support to signal their commitment to the TCFD recommendations and work with their peers in a united effort to improve disclosure across sectors and regions. To sign up, email us at info@a4s.org.

TCFD recommendations on climate change
ABN AMRO is committed to implementing the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD). In June 2019, the European Commission published guidelines on how to apply the TCFD recommendations. These guidelines supplement the Guidelines on Non-Financial Reporting and are consistent with the EU Non-Financial Reporting Directive. This section provides insight into the current implementation status of the four TCFD pillars: governance, strategy, risk management, and metrics & targets.

Having taken the first important steps towards implementing the TCFD recommendations since its public commitment to do so in November 2017, ABN AMRO is participating in the United Nations Environment Programme Programme Finance Initiative (UNEP-FI) TCFD Pilot Phase 2 to gain further understanding of and build the capacity needed to assess climate risks and opportunities at a borrower and portfolio level.
THE ROLE OF FINANCE

The finance team at ABN AMRO played a key role in supporting the implementation of the TCFD recommendations, as described below:

- A multidisciplinary project team led the implementation. It consisted of in-house sustainability experts and colleagues from finance and risk teams.
- Finance coordinated the annual reporting process and facilitated making disclosures within it. Finance also ensured the completeness, accuracy and consistency of the disclosures by asking the right questions from a bank-wide perspective, and establishing governance and review procedures.
- The technical aspects of scenario analysis were handled by the risk team in close collaboration with business lines. This work included selecting the scenarios to use, determining the assumptions and definitions, conducting the risk analysis and assessing the financial implications of risks.
- Investor relations (IR) is part of the ABN AMRO finance team, with the Head of IR reporting to the CFO. Therefore, explaining the climate-related financial disclosures to investors was part of the finance team’s responsibilities.

TOP TIPS FOR GETTING STARTED

1. **Involves in-house experts**
   Use existing expertise and knowledge on sustainability and risk management to start assessing and managing climate risks.

2. **Start now and start small**
   Focus on one portfolio and do it properly, then use this experience to widen the scope of your analysis and your disclosures.

3. **Stay abreast of investor expectations**
   Engage with your investors: understand their expectations on data quality and analytical rigour, and develop your scenario analysis accordingly.
OVERVIEW OF SCENARIO ANALYSIS

ABN AMRO’s first scenario analysis considered the strategic implications of potential climate scenarios.

The bank initially assessed the effect of different climate scenarios on its Dutch residential mortgage portfolio, focusing on physical risk. The mortgage portfolio was selected because of its importance to the overall balance sheet, demonstrating the bank’s focus on materiality from the start. The bank also indicates that it is in the early stages of developing a longer-term plan to analyse the transition risk of its upstream oil and gas portfolio. This gives investors confidence that both physical and transition risks are being considered.

Very few organizations will have all the information needed to adopt the TCFD recommendations fully in their first year of reporting, but it is important to recognize that incomplete disclosure is better than no disclosure. Indicating how you intend to extend your scenario analysis is also useful information for investors.

TOP TIP
Scenario analysis can be qualitative or quantitative. Consider starting with qualitative analysis if numerical data is not immediately available. Numerical data can be added later when it becomes available, using either in-house sources or engaging with external providers. Click here to download our guidance.
Identifying and defining a range of scenarios

ABN AMRO used climate scenarios based on meteorological projections from independent external sources to identify expected weather patterns in 2050. Scenarios are based on global warming of either 2°C or 4°C by 2100. These scenarios were specific to the Netherlands given the bank’s focus on its residential mortgage portfolio. The disclosures clearly describe the choices made, including the scenarios, time horizons and models that have been applied.

The assessment focused on a 4°C pathway to global warming, which is generally considered an extreme scenario. This conservative analysis gives users confidence that the bank understands the potential impact of severe weather events on its mortgage portfolio. Analysing a range of relevant scenarios gives greater insight to both internal decision makers and investors.

In developing its scenario analysis, the bank used external expertise and gathered relevant data from the Dutch Meteorological Institute and Climate Adaptation Services. Minimizing data gaps and engaging external experts are useful steps towards full implementation.
The impact of flooding and drought on our mortgage portfolio can be both direct and indirect. The direct impact will result from flooding or drought causing damage to property. Below you can see the geographical distribution of our residential mortgage portfolio and the probabilities of flooding of ≥50 cm. Probability data were provided by Climate Adaptation Services (CAS).

The indirect impact will work through the market and the macroeconomy. The focus in the scenario analysis was on:
- market value reductions caused by the perception of risk and subsequent shifts in demand; and
- the effects on the macroeconomy of flooding of ≥50 and ≥200 cm.

ABN AMRO stated clearly that the material impacts of climate change to its residential mortgage portfolio can be potentially both direct and indirect. The growing physical risk to the portfolio due to increased flooding and drought is a direct impact. The indirect impact will be reflected through market value reductions and effects on the macroeconomy resulting from flooding. This is useful information, showing that indirect consequences, with the potential to have a more significant impact, have been considered within the analysis. Flooding probability data provided by Climate Adaptation Services enabled the bank to disclose the potential impact using a combination of qualitative and quantitative data.

Another direct impact of physical risk in ABN AMRO’s analysis was the rot of wooden foundation poles as a result of drought. The bank mapped the locations of its residential mortgage portfolio and applied colour coding to show visually the risk posed by foundation pole rot up to the year 2050. Highlighting the analysis of this direct impact shows users that a range of factors have been considered.

Disclosures here included key data sets, the high-level assumptions made, and the pathways of the scenarios used. This makes it easier to compare results between different scenarios used by the bank and across peer organizations. Using this data, analysts and investors can also evaluate the robustness of organizations’ strategies across a range of plausible impacts, helping them to make better risk and capital allocation decisions.
Drought causes groundwater levels to decrease, thus exposing wooden foundation poles to oxygen and causing wooden poles to rot. The following figure shows the locations of our residential mortgage portfolio in the Netherlands and an indication of the risk of foundation pole rot in the coming 30 years.

Wooden pole rot risk the coming 30 years

The results of ABN AMRO’s scenario analysis were presented visually to make them more accessible. Through these visual representations, the bank has neatly disclosed the detailed qualitative findings of its scenario analysis. As organizations extend their scenario analysis and broaden its scope, disclosing quantitative financial data will become more commonplace.

The analysis of physical risk scenarios over a relatively short timeframe (30 years) reflected the lifetime of the underlying assets.
Initial insights
The majority of the residential properties in our portfolio have a very low probability of experiencing damage from flooding or drought in the next 30 years. A relatively small number of properties, however, have a high probability of experiencing damage from flooding or drought in that period. Therefore, the impact on an individual household may be significant, even more so if the quality of the property is already low or the household’s response capacity is low (e.g. insufficient wealth or mortgage headroom). Nevertheless this initial analysis does not suggest a significant impact at either a portfolio or bank level.

A literature review of various empirical studies suggests that market value reductions based on risk perception will increase in response to the increasing risks associated with and public attention for climate change. The occurrence of flooding is also expected to have a significant effect on the macroeconomy in the form of house price and gross domestic product (GDP) shocks, causing a standstill (temporary or otherwise) of economic activity and affecting consumption, employment and investment. This effect is expected to be even greater if a dynamic model is used to show feedback loops and interrelations between macroeconomic variables.

Evaluating business impacts
ABN AMRO used probabilities to explain potential impacts of flooding and drought in its qualitative disclosures on the scenario analysis. This allows readers to understand the possible magnitude of impacts. A useful next step would be to quantify the impacts in relation to key financial parameters such as costs and revenue. It would also be useful for readers to understand key sensitivities within the results.

The analysis showed a relatively small number of high-risk properties, allowing the bank to disclose its initial conclusion that the portfolio is sufficiently resilient to physical risk. An explicit conclusion shows investors that the bank has carefully considered findings from the scenario analysis.

Key findings from ABN AMRO’s literature review informed the assessment of the indirect impact of climate risks in the scenario analysis. This disclosure also indicates that the bank will continue to consider the effect of physical risk on the wider economy and the relationships between macroeconomic variables.

Identifying the next steps
ABN AMRO acknowledged the need to analyse further the physical climate risk to its business. The bank plans to refine its analysis, partly by collaborating with partners and pooling knowledge. This disclosure sets out the next steps on ABN AMRO’s path towards full TCFD implementation and providing decision-useful, climate-related financial information. It also shows that the current analysis has been useful for the organization, but suggests more detailed assessment is needed for the information to be used specifically within strategic and financial plans.

Initial insights suggest that more detailed assessment is necessary. In 2020, therefore, we will further develop the analysis, improving methodology and data where possible, and also devise actions, both on our own and in cooperation with partners, to respond to the risks identified within our sphere of influence.
Identifying and defining a range of scenarios

In line with TCFD guidance, ABN AMRO adopted the ‘well below 2°C’ scenario as a starting point for its transition risk analysis. This is consistent with the Paris Agreement’s goal of keeping the increase of global average temperature above pre-industrial levels to well below 2°C. In future analyses, the bank may want to consider the impacts from a range of other scenarios.

Initial transition risk disclosures are focused on ABN AMRO’s upstream oil and gas portfolio as this sector is expected to be strongly affected by the transition to a low-carbon economy.

Assessing transition risks is challenging for companies that are not used to conducting climate-related scenario analysis. The complexities of the information and resources required can make it difficult to get started. To make the process easier, ABN AMRO drew on what it learned from the UNEP-FI TCFD pilot. This shows how working with other groups can give an organization the knowledge needed to begin assessing climate risks and opportunities in its portfolios.

Evaluating the business impacts

ABN AMRO has clearly disclosed the risk factors that it has considered in its analysis. This allows analysts and investors to understand the scope of the analysis and make comparisons with other organizations’ disclosures. The bank described its evaluation as ‘initial insights’, indicating that its analysis is at an early stage. Although revenues are the most relevant risk factor for this portfolio, ABN AMRO noted that the impact is limited because of the relatively short time horizon of the facilities offered by the bank. This gives users an indication of exposure and overall impact. As the bank deepens its knowledge of scenario analysis, it may want to consider disclosing quantitative information and any key sensitivities within the results.
Identifying the next steps
The bank has recognized the need to expand its time horizon and apply scenario analysis to a wider selection of sectors impacted by the transition to a low-carbon economy. Having started the process, ABN AMRO is well placed to use its experience to build scenario analysis into more asset portfolios. In future disclosures, the bank may want to highlight any changes to its strategic and financial plans based on its TCFD scenario analysis.
OVERALL COMMENTS

ABN AMRO conducted scenario analysis for the first time in 2019, selecting different portfolios to assess physical and transition risks. It has clearly disclosed the nature of the analysis, its initial insights and how it plans to build upon this work. The disclosures allow analysts and investors to understand how ABN AMRO is assessing climate risks and the initial impacts that it has identified. The clarity of the disclosures allows users to make comparisons with other organizations. As ABN AMRO builds upon its scenario analysis, it may want to consider applying a range of scenarios to determine the range of potential impacts on its business, alongside the key sensitivities in any models used.

FURTHER RESOURCES

- [A4S TCFD Top Tips for Finance Teams](#)
- [A4S practical examples](#)
- [TCFD recommendations](#)
- [TCFD technical supplement on scenario analysis](#)
- [TCFD homepage on scenario analysis](#)
- [TCFD knowledge hub](#)
ABOUT A4S

Our vision is a future where sustainable business is business as usual.

HRH The Prince of Wales established A4S in 2004 to work with the finance and accounting community to:

- **Inspire finance leaders** to adopt sustainable and resilient business models
- **Transform financial decision making** to reflect the opportunities and risks posed by the climate crisis and other environmental and social issues
- **Scale up action** to transition to a sustainable economy

A4S has three global networks:

- **Chief Financial Officers (CFO) Leadership Network** – CFOs from leading organizations seeking to transform finance and accounting.
- **Accounting Bodies Network (ABN)** – members comprise approximately two-thirds of the world’s accountants.
- **Asset Owners Network** – Pension Fund Chairs who integrate sustainability into investment decision making.

FURTHER GUIDANCE FROM A4S

**LEAD THE WAY**

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management*
- Finance Culture
- Incentivizing Action*

**TRANSFORM YOUR DECISIONS**

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

**MEASURE WHAT MATTERS**

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Embedding Climate Risk into Valuations*

**ACCESS FINANCE**

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework

*coming soon

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