Oil & Gas Policy

Why does ABN AMRO have an Oil & Gas Policy?
The oil & gas sector is of great importance to the world’s socio-economic development. Access to reliable and affordable energy is fundamental for our well-being. However, ABN AMRO is aware that the oil & gas sector represents significant sustainability risks. Clients, projects and, indirectly, ABN AMRO's reputation can suffer when Environmental, Social and Ethical (ESE) impacts are not managed appropriately. The following ESE risks are often associated with activities in the oil & gas sector:

- **Climate change**: The oil & gas sector is the largest contributor to global greenhouse gas emissions, due to its direct impact (flaring and fugitive emissions) and the combustion of fossil fuels.
- **Pollution**: Fossil fuels are often extracted from more challenging environments, with an increasing focus on unconventional and riskier techniques which increase the risk of spills, require large amounts of fresh water and might entail significant amounts of hazardous waste.
- **Ecosystems & Biodiversity**: Oil & gas projects might take place in sensitive environments, leading to loss of habitat, disturbance of wildlife, soil degradation and erosion, and deforestation.
- **Health & Safety**: As a result of oil & gas projects, employees and local communities might be exposed to significant health & safety risks due to the effects of hazardous materials and waste, and fugitive emissions.
- **Local communities**: Oil & gas projects might have adverse effects on local communities, affecting the needs and rights of indigenous sustainable economic participation, and leading to social disruption.
- **Transparency and human rights**: When operating in countries with high levels of corruption, companies may face ethical issues: revenue mismanagement, the lack of transparency in transactions and human rights abuses.

ABN AMRO believes that clients who responsibly manage the ESE impacts of their business are more successful in the long term. Hence, the bank supports emerging international good practices regarding the responsibilities of the financial sector in working with its clients on sustainability, and wants to contribute to a responsible and sound approach to oil & gas exploration. ABN AMRO engages with clients on sustainability issues in order to minimize the ESE impacts of oil & gas sector activities and ABN AMRO requires its clients to meet appropriate technical, governance, transparency, social and environmental standards.

What is the scope of this policy?
The Oil & Gas Sector Policy is one of the underlying policies of the Sustainability Risk Policy. The Oil & Gas Sector Policy is in line with the bank’s core values and business principles, its sustainability risk appetite and the Three Lines of Defence Model. The policy applies to ABN
AMRO and all its subsidiaries, branches, representative offices and legal entities that are under its control.

The policy is applicable to all clients active in the supply chain of the oil & gas sector with activities ranging from oil & gas exploration and production, oil & gas-related downstream services and trading of energy commodities. The policy applies to all financial services, including lending and other forms of financial assistance, debt and equity capital markets activities, and project finance, as well as to advisory work.

For project financing, the bank follows the Equator Principles, a common baseline and framework established among banks for the implementation of environmental and social procedures and standards for project financing.

What standards does ABN AMRO apply to this sector?

Excluded activities
The following practices from the bank’s Exclusion List bear special relevance for the oil & gas industry:

- Activities resulting in significant conversion or degradation of a critical habitat;
- Shipment of oil or other hazardous substances in single-hull tankers or tankers not compliant with IMO requirements;
- Resettlement of indigenous and/or vulnerable groups without free prior and informed consent (FPIC).

General standards
Bank clients must operate in accordance with the relevant international and national laws and regulations, and, especially when involved in high sustainability risk activities, are expected to adopt and adhere to international good practices on sustainability risk management. These practices apply to the whole supply chain.

With regard to health & safely, clients should care for the safety, health and wellbeing of all employees, including day labourers and migrant workers, and care especially for the wellbeing of local communities and those who are affected by their operations.

Clients must clearly demonstrate their commitment to good governance, reporting and transparency, including on revenues and payments. The bank expects its (producing) clients to publicly report on (ESE) performance, using widely accepted metrics such as developed by the International Petroleum Industry Environmental Conservation Association (IPIECA), the Global Reporting Initiative (GRI), and the Extractives Industries Transparency Initiative (EITI).

The bank checks whether client practices are guided by a code of business conduct that addresses, at a minimum, ethical standards such as governance and the prevention of corruption and bribery.
In addition, the bank checks whether an appropriate ESE management system is in place which is fully and systematically integrated into broader company management and includes occupational health and safety, emergency response and preparedness, and is certified to an internationally recognised standard (e.g. ISO 14001, OHSAS 18001).

The bank expects its clients to engage constructively and openly with local communities, and to address their concerns in a timely and adequate manner. Clients must fully respect human and indigenous rights and address all ESE risks resulting from or relevant to their activities. Clients must actively strive to deliver and monitor local benefits by participating in economic and social development opportunities (working in partnership with public and civil society, showing commitment to employing local people and to delivering social development such as health and education support to local communities). A stakeholder engagement strategy must be formalised and implemented which demonstrates the client's commitment to take its stakeholders interests and comments into account in its business decisions. In addition, there must be a mutually agreed and documented system for dealing with complaints and grievances, which is implemented and accepted by all parties.

Special consideration projects

By the nature of the location of these reserves, oil & gas production are likely to occur in challenging environments. Extraction may take place in areas of natural beauty, in conflict areas or in areas where there is disagreement with local stakeholders. For this reason, the bank is extra careful in assessing projects that may have significant environmental and/or social impact, such as projects in non-high-income countries or areas that are exposed to weak regulatory frameworks, low levels of transparency, or high levels of corruption, and/or where regimes or military forces participate in human rights violations. The particular circumstances are very important in assessing what levels of benefits to the local community or host country, transparency and safeguards for protecting human rights, are appropriate.

For highly complex oil & gas sector initiatives (e.g. shale gas, oil sands) the bank applies a case-by-case approach, in which the bank seeks to balance all the different perspectives in order to reach decisions that are in conformity with the bank’s principles and standards. Because of the importance of local considerations and the continuing evolution of technological developments, ABN AMRO reviews such initiatives on a case-by-case basis to ensure that they meet international good practices.

International initiatives on sustainable energy

In its decision making process, ABN AMRO refers to the following international good practices and initiatives:

- The UN Global Compact “Guidance on Responsible Business in Conflict-Affected and High-Risk Areas”;
- The International Petroleum Industry Environment Conservation Association (IPIECA)’s “Guide to Operating in Areas of Conflict for the Oil & Gas Industry”;

A Standard ESE management system (ESMS) defines the organisational structure, responsibilities, policies, procedures, training, resources and performance targets which are essential for successfully implementing either a business-wide or project-specific ESE management programme. A Standard ESMS enables continuous improvement and monitoring of the ESE performance of a business or project. It also involves regular disclosure to key stakeholder groups and can lead to improved economic, financial, social and environmental outcomes.
- The **Energy and Biodiversity Initiative**, which is a partnership between energy companies and conservation organisations that has developed a framework of best practices for integrating biodiversity conservation into upstream oil & gas development;

- The **Global Gas Flaring Reduction Initiative**, under which oil companies and governments are working together to minimise the flaring of gas by jointly overcoming barriers that inhibit greater gas utilisation;

- The **Extractive Industries Transparency Initiative**, which is a coalition of governments, companies and civil society that sets a global standard for transparency in oil, gas, and mining;

- **Publish What You Pay**, a global network of civil society organisations campaigning for transparency in the extractive industries;

- IPIECA’s **oil & gas industry guidance on voluntary sustainability reporting**, which is the principal industry-specific framework for use by oil & gas companies reporting on environmental, health and safety, and social and economic performance;

- **WRI’s Principles for Effective Community Engagement**, which set a framework for identifying solutions to core community engagement challenges for extractive and infrastructure projects;

- The **Petroleum Governance Initiative**, the aim of which is to achieve cooperation on petroleum governance issues and to support developing countries in the implementation of appropriate petroleum governance frameworks.

**How does ABN AMRO put its standards into practice?**

In accordance with its **Sustainability Risk Policy for Lending** and **Sustainability Risk Policy for Investment** ABN AMRO puts its sustainability standards into practice through the following four steps: screening and risk determination, assessment, approval, and monitoring.

The first step consists of screening and risk determination. The client’s activities are screened for “embargoed matters” on the bank’s exclusion list. Following the standard procedure, the client is also screened on anti-corruption, tax, and good governance issues. Subsequently, the bank determines the transaction’s sustainability risk level (low, medium, high) based on the business activity (the “what”) and location (the “where”) of the activity, using the bank’s Global Sustainability Risk Index. For the production of oil & gas, environmental risks such as oil spills, air pollution due to vapour release and water pollution due to waste water with residual oil and chemicals are identified. In addition, social aspects such as the risk of fires and explosions due to the storage of fuel and health risks as a result of emissions from fuel depots are taken into account.

The second step is the assessment of the client’s sustainability performance by means of due diligence procedures and using the Energy Commodities Sustainability Assessment. The bank’s standards described in this policy form the benchmark against which the client’s sustainability performance is assessed. The purpose of this step is to assess whether the sustainability risks are adequately mitigated and managed by the client, and to identify any gaps that need to be addressed. The intensity of the sustainability due diligence process depends on the sustainability risk level. As the exploration and production of oil & gas generally has a high risk level, ABN AMRO executes extensive and in-depth sustainability performance assessments focused on the risk details of transactions with clients in these sectors. For traders and other service providers in the oil & gas industry, the bank has developed a specific list of questions that addresses the ESE
issues related to oil & gas commodities. In its due diligence efforts, ABN AMRO uses its Energy Commodities Sustainability Assessment to assess the client’s commitment, capacity and track record on sustainability as follows:

*The client’s commitment to sustainability:* The bank assesses if the company is guided by a code of business conduct and has a sustainability policy, including the responsibility senior management takes in this field. ABN AMRO also checks if and to what extent the client requires its service providers and contractors to commit to best industry practice. Furthermore, the assessment includes the client’s commitment regarding its stakeholders and local communities, including any system for dealing with complaints and grievances, and the delivery and monitoring of benefits to local communities.

*The client’s capacity:* The bank assesses the client’s environmental and social management system (ESMS), and its compliance with relevant international standards (such as ISO 14001) as well as the quality and training of responsible staff. The bank also assesses the client’s approach to identifying and managing the ESE risks of service providers and contractors, its transparency on the E&S performance of all its operations (using metrics such as IPIECA, GRI and EITI), and the quality of its public reporting.

*The client’s track record and performance:* The bank investigates whether any serious accidents, crisis situations, adverse NGO/media campaigns or boycotts against the client have occurred, and whether the client has been subject to fines, penalties, pending court cases or sanctions.

The third step is the approval of the transaction from a sustainability risk management perspective. The outcome of the Energy Commodities Sustainability Assessment will provide the basis for determining whether the client has the requisite commitment and capacity to appropriately manage the environmental and social impacts of its business, and will be taken into account in our engagement and credit decisions. Where a client’s approach to the management of environmental and social issues within its business is not yet at industry standard, ABN AMRO will view the client’s commitment to sustainability and the client’s willingness to improve business practices, within a mutually acceptable time-frame, as important elements of the final decision to proceed with the engagement.

The fourth step is monitoring. ABN AMRO’s monitoring is focused on clients with a sustainability risk performance that is subject to improvement. ABN AMRO monitors the client’s compliance with the bank’s conditions and mutually agreed measures, for as long as the bank maintains a financial interest in the transaction.