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SUSTAINABILITY POLICY

Climate

asn bank

Inhoud

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Introduction

Human rights, climate and biodiversity are the pillars of our sustainability policy that together cover nearly all topics that are relevant in everything we do, including in the selection of our loans and investments. We ask ourselves three questions here:

- Human rights: how can we protect people's rights through our loans and investments?
- Climate: how can we select our loans and investments so as to ensure their contribution to a safe, liveable and stable climate for people and nature?
- Biodiversity: how can we contribute to a clean environment and nature conservation through our loans and investments?

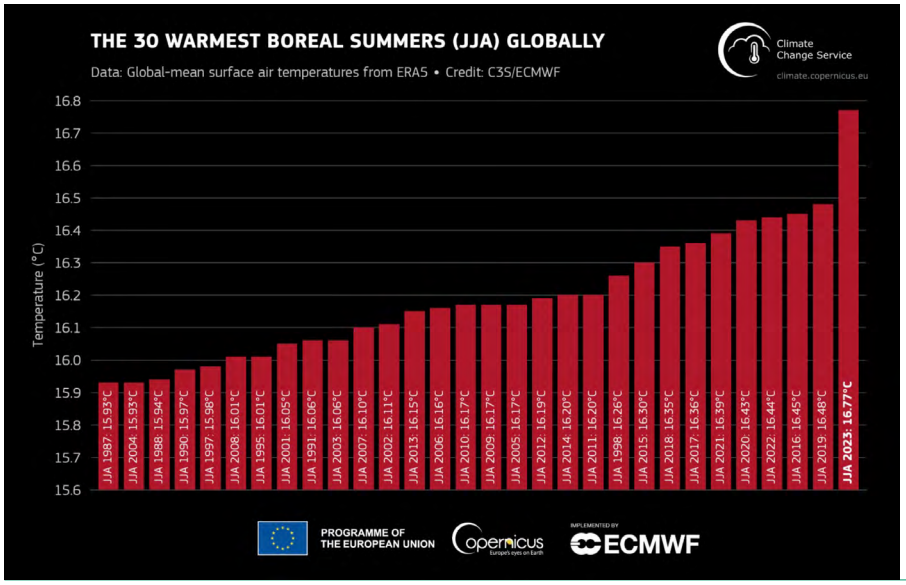
The emission of greenhouse gases, including CO_2, is causing the current rapid global warming. As a financial institution, we set great store by making a maximum contribution to the reduction of these emissions in order to keep the world a liveable place for ourselves and for future generations. Unfortunately, the consequences of climate change can hardly be predicted and are as good as irreversible. This policy paper explains how we respond to climate change and its consequences, as well as how we attempt to contribute to combating and/or reducing climate change and its consequences. We describe the sustainability criteria for the climate issue that we apply when selecting our loans and investments and in our own business operations.

CLIMATE CHANGE

Although the climate has regularly changed over the course of Earth's history, the current global warming is attributed to the strong increase in greenhouse gases in the atmosphere, which is mainly due to the burning of fossil fuels[1].

WHAT DO WE MEAN BY 'CLIMATE CHANGE'?

The climate is changing as more greenhouse gases are discharged into the air. This warming has accelerated in the past few decades, which has made climate change more and more apparent. The hottest ten years in recorded history were all after 2010 and the hottest years ever were measured in the past ten years (2014-2023). The year 2023 was approximately 2.9 degrees Celsius warmer than the start of the previous century (13.9 degrees Celsius)[2]. All climate records were broken – it was the wettest and hottest year on record since the start of measurements performed by the Royal Netherlands Meteorological Institute (KNMI)[3]. Expectations are that this trend will continue.



The consequences of global warming are becoming increasingly visible and tangible. The number of extreme weather phenomena is on the rise globally, with more storms, very heavy rainfall and periods of drought, retreating Arctic ice, disappearing glaciers, sea level rise and ocean acidification.

1 IPCC — Intergovernmental Panel on Climate Change p.8
2 NOAA National Centers for Environmental Information, 2022 Global Climate Report. Climate Change: Global Temperature | NOAA Climate.gov
3 KNMI - 2023: natste en warmste jaar sinds het begin van de metingen

CLIMATE CHANGE AND HUMAN RIGHTS

In 2022, the United Nations (UN) recognised the right to a clean, healthy and sustainable living environment as a human right[4]. Climate change greatly impacts people all over the world, with the consequences ranging from physical damage to homes (accommodation and shelter) and infrastructure, poor harvests (hunger and malnutrition), a higher mortality rate (partly due to heat stress) and fewer options to work outside or to work at all (poverty and basic facilities), to the spread of tropical and other diseases (health).

These adverse effects are increasing in scale. The most vulnerable regions are those where the changes concentrate and where possibilities for adaptation are limited. These are mainly the poorer regions in the lower latitudes, although – historically – the inhabitants of these regions have made the smallest contribution to climate change[5].

As living conditions deteriorate, climate change could pose a threat to stability and peace in the world. Floods, prolonged periods of drought and other weather extremes could lead to regional food insecurity, which could prompt an outflow of refugees. This could jeopardise peace, public order and safety in countries where climate change is visible as well as in the neighbouring countries.

Climate change and human rights are inextricably linked. The Universal Declaration of Human Rights provides that States have the duty to protect people. This is also laid down clearly in the UN Guiding Principles on Business and Human Rights, which often precede legally enforceable rules[6].

CLIMATE CHANGE AND BIODIVERSITY

Climate change also presents a significant threat to biodiversity and causes further ecosystem degradation. Ecosystems change on the back of unexpected events such as prolonged periods of drought, heat or high rainfall. Many plant and animal species are unable to adapt to these changes in time. Climate change can even destroy entire ecosystems. Coral reefs, for example, are disappearing due to the acidification of oceans resulting from an increase in CO_2 in the atmosphere.

PURPOSE AND SCOPE

This policy applies to the activities that de Volksbank and its brands carry out in the area of the climate. These include:

- ASN Sustainable Loans;
- housing/mortgages;
- services to companies;
- financial market transactions (FMT);
- facilities management;
- procurement.

4 Schone, gezonde en duurzame leefomgeving | Thema's | College voor de Rechten van de Mens (mensenrechten.nl)
5 IPCC, Synthesis Report -summary for policymakers, 2023, blz. 5.
6 https://www.amnesty.nl/wat-we-doen/wat-heeft-amnesty-met-klimaat-te-maken

1 Basic principles underlying our climate policy

Below, we have listed the main basic principles underlying our sustainability criteria for the climate. We provide the scientific subject-matter frameworks, briefly set out the agreements to which we have committed ourselves and outline the processes we use to implement the policy and to make adjustments where necessary.

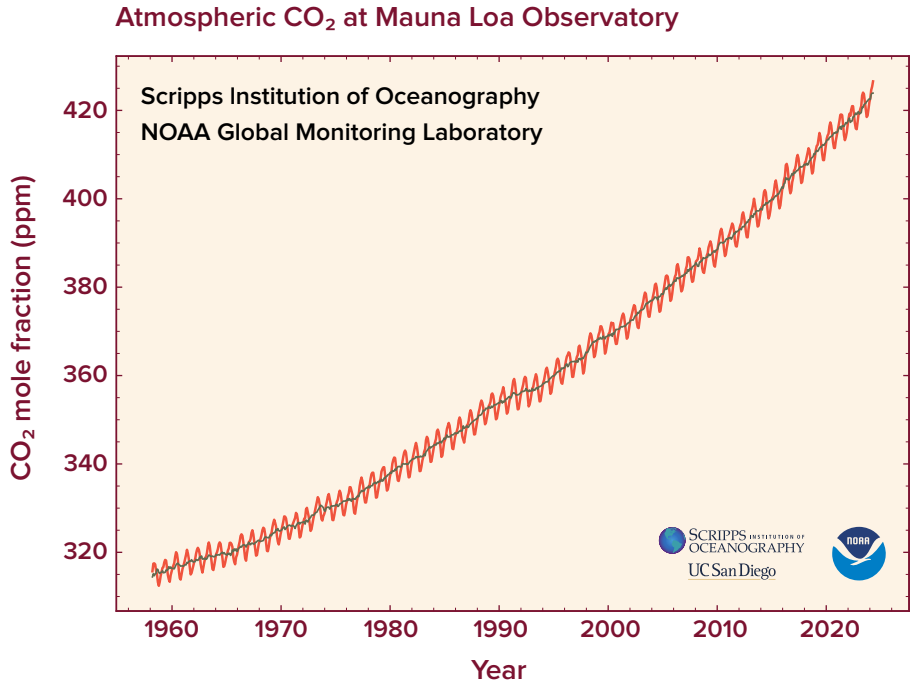
SCIENTIFIC BASIS

Sufficient evidence exists to prove that humankind has caused climate change. Further global warming as a result of our actions is inevitable, and it seems impossible now to fully resolve the climate problem. This is a crucial fact for the elaboration of our policy. We have phrased our policy while being guided by the reports of the UN Intergovernmental Panel on Climate Change (IPCC).

CURRENT STATE OF AFFAIRS

The rate at which global CO_2 emissions increase is accelerating every year. The CO_2 concentration in the atmosphere has risen from 379 ppm (parts per million) in 2005 to 421 ppm in mid-2023. That is well out of the natural range of 180 ppm to 300 ppm of the past 650,000 years.

CO_2 in the atmosphere (in ppm)



Source: NOAA, https://gml.noaa.gov/ccgg/trends/

Global greenhouse gas emissions continue to grow, mainly because CO_2 emissions from fossil fuels are on the rise. Global emissions of methane (CH_4), nitrous oxide (N_2O) and fluorinated gases (F-gases) have also increased.

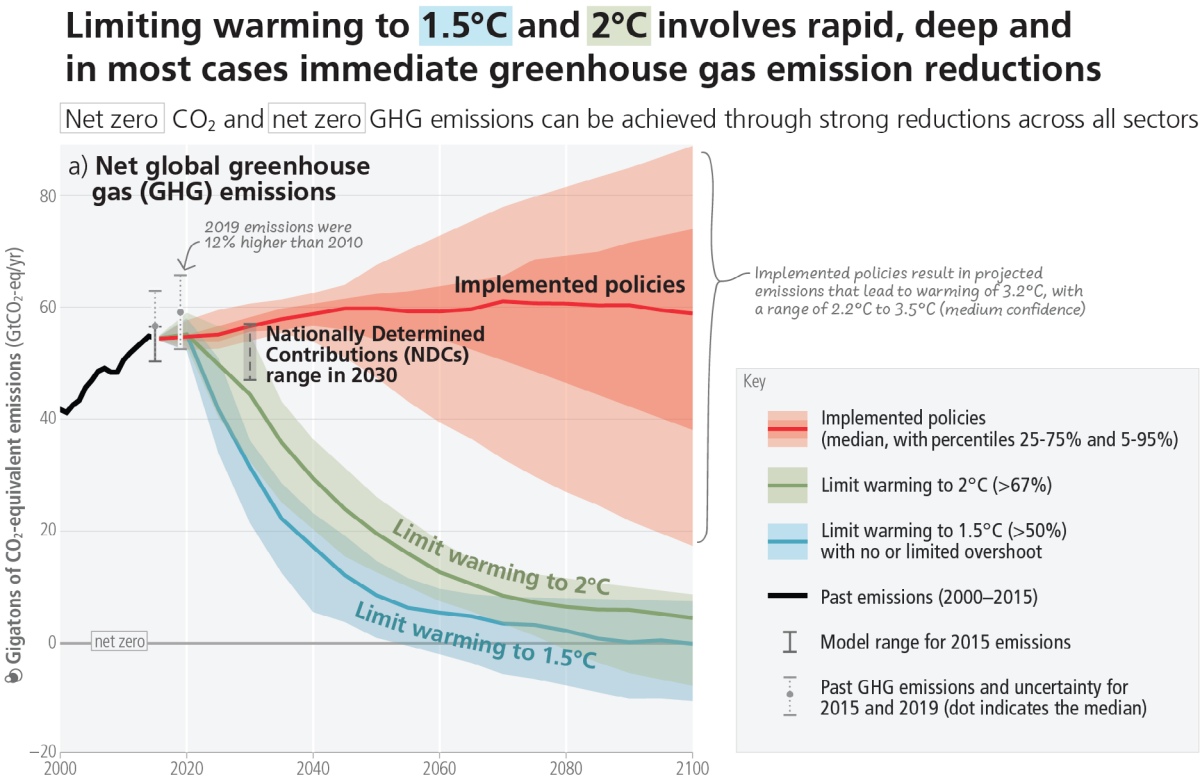
The ultimate extent of global warming predominantly depends on when CO_2 emissions stabilise and the rate at which emissions subsequently drop. The longer it takes to stabilise these emissions, the more CO_2 will accumulate in the atmosphere and the higher the global average rise in temperatures will be. This also means that the sooner CO_2 emissions drop, the greater the chances of the temperature increase remaining below the limit of dangerous climate change.

CALL FOR COLLECTIVE ACTION

As the increase in greenhouse gas emissions has far-reaching consequences, more and more scientists raise the alarm and indicate that the safe upper limit for global warming is 1.5 degrees Celsius. The damage in case of a temperature increase of 2 degrees Celsius or more is likely to be far greater than was previously assumed. The 2018[7] IPCC report already concluded that tremendous benefits can be gained from limiting the global rise in temperatures to 1.5 degrees Celsius, while also concluding that further-reaching collective ambition is needed to achieve the Paris Agreement goals.

The most recent IPCC report (2023) once again emphasised the urgency of large-scale, globally coordinated action. Based on the latest estimates, the actions that countries are currently implementing to reduce greenhouse gas emissions will result in global warming of 3.2 degrees Celsius (within a range of 2.2 to 3.5 degrees Celsius)[8].

Need for action



Source: IPCC, Synthesis Report – summary for policymakers, 2023, p. 23.

In late 2019, the European Union expressed its ambition to be the first net-zero continent by 2050. The EU Green Deal[9] outlines the focus areas for achieving this ambition.

AGREEMENTS AND AMBITIONS

Presented at the 21st meeting of the United Nations Framework Convention on Climate Change in Paris in December 2015, the Paris Agreement is an international treaty that aims to limit global warming. The Agreement was the first legal document to lay down the upper limit of 2 degrees Celsius above pre-industrial levels and also includes the aim to limit global warming to 1.5 degrees[10] Celsius. These 1.5 degrees are considered a relatively safe limit. A temperature increase above this limit will disrupt life on Earth even more, with adverse consequences for ecosystems and societies globally.

7 https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/
8 IPCC, Synthesis Report – summary for policymakers, 2023, blz. 23.
9 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_nl
10 http://unfccc.int/paris_agreement/items/9485.php

The Agreement requires member states to prepare national climate plans (Nationally Determined Contributions; NDCs) and to raise their level of ambition with every new plan. Furthermore, the Agreement states that prosperous countries are obliged to support developing countries (including financially) in reducing their emissions and mitigating the effects of climate change.

The Dutch ambition and concrete details of the Paris Agreement were laid down in the Dutch Climate Agreement in 2019. The central goal of the Climate Agreement is to reduce greenhouse gas emissions in the Netherlands by 55% compared to 1990 levels[11]. The Climate Agreement was cancelled on 4 November 2022 and incorporated into a policy programme that occupies a central position in government policy.

Limiting global warming to 1.5 degrees roughly means that the emission of CO_2 equivalents (CO_2e) must be reduced by 55% in 2030 and that emissions must be net zero by 2050. Government authorities all over the world are working out the details of this target within their mandates. Europe, for instance, has adopted a Fit for 55 package containing laws and regulations, and the Netherlands has drafted a Climate Agreement setting out objectives for each sector.

The specific contribution the Dutch financial sector will make to the Climate Agreement is laid down in the financial sector's Climate Commitment. This Commitment partly resulted from the Spitsbergen Ambition[12] and the Dutch Carbon Pledge, which was largely initiated and pioneered by ASN Bank. In the Commitment, the participating financial institutions committed themselves to the following[13]:

1. The parties involved will participate in the financing of the energy transition and, to that end, accept a best-efforts obligation within the frameworks of laws and regulations and their risk-return targets.
2. The parties will take action to measure the CO_2 content of their relevant loans and investments. They will publicly report on this from financial year 2020.
3. No later than 2022, the parties will announce their action plans including reduction targets for 2030. The parties will explain what action they are taking to contribute to the Paris Agreement.
4. This Commitment forms an integral part of the Paris Agreement. The parties will organise annual consultations with all parties involved to discuss the progress made with the implementation of the arrangements.

Published in 2022, the climate action plans of de Volksbank[14] and ASN Impact Investors[15] state in detail what action they will take to comply with the Paris Agreement.

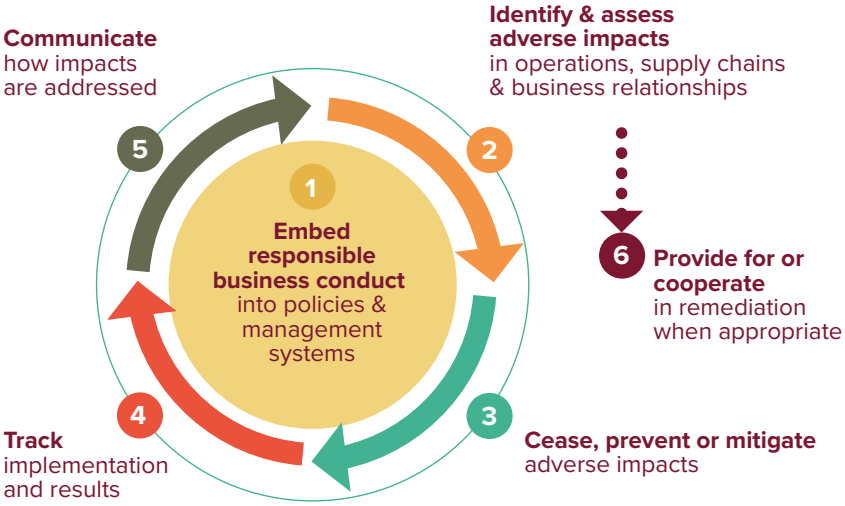
OECD DUE DILIGENCE PROCESS

We apply the OECD's due diligence process to develop and implement our policies. First phrased in the 1970s, the OECD Guidelines cover issues such as the environment, anti-corruption and tax. They guide the actions of companies that do business internationally in countries where these issues are not always enshrined in the law. These international guidelines require that we apply due diligence. In this context, due diligence is a continuous process in which companies identify actual or potential adverse impacts on good governance, people, animals and the environment and subsequently cease, prevent or mitigate these impacts. Since this is a continuous process, the aim is to achieve continuous improvement.

The due diligence process as prescribed by the OECD consists of six steps. We apply these steps and describe below how we implement them for the climate issue.

11 https://www.klimaatakkoord.nl/
12 https://www.nvb.nl/nieuws/spitsbergen-ambitie-sluit-aan-bij-inzet-banken-voor-klimaatakkoord/
13 Over het Klimaatcommitment - Klimaatcommitment
14 devolksbankclimateactionplan2022.pdf
15 20221230_Klimaatactieplan ASN Impact Investors (4).pdf

OECD due diligence process



Source: OECD, OECD Due Diligence Guidance for Responsible Business Conduct, 2018.

In line with the above figure, we take the following steps:

1. Our climate policy is part of our overall sustainability policy. This policy – the Risk Management Policy on Sustainability Risk (Sustainability Risk RMP) – describes the governance of our sustainability policy and, as such, underpins the further development of specific sustainability policies for the various business activities. Together, these policy papers make up the House of Policies Sustainability (HOP). The purpose of the Sustainability Risk RMP is to describe the governance and provide the definition of sustainability in a way that is properly understood and accepted by internal and external stakeholders. The development and implementation of sustainability initiatives involves the designation of owners within the Executive Committee and senior management.

2. Since 2013, we have been identifying the climate impact of all our loans and investments step by step with the aim of improving it. For this purpose, we apply the Partnership for Carbon Accounting Financials (PCAF) methodology. It helps us understand the adverse effects of our activities, which we intend to reduce to the greatest extent possible. Our Climate Action Plan states how we identify and measure this adverse impact. It goes without saying that our analysis also covers our business operations.

3. For many years, our project loans portfolio has consisted of loans provided for renewable energy projects (wind, sun, biomass). We also remain committed to helping our customers make their homes or commercial buildings more sustainable, for example by offering appropriate products and information and by organising meetings. Our Climate Action Plan describes the framework for the further elaboration and scaling-up of the implementation of our policy. We also study the mitigating climate effects of removal projects, i.e. projects that naturally extract CO_2 from the atmosphere. More information about this can be found in the section on our long-term objective.

4. Every quarter, we prepare an overview of the results of our actions and use the insight gained to adjust our actions.

5. Twice a year, we publish our results externally, including in the regular formal reporting documents. We welcome any response from our stakeholders in this regard.

6. As climate action necessarily involves collaboration, we were one of the initiators of PCAF, which has developed an internationally recognised method for measuring companies' CO_2 performance and monitoring their progress. Collaboration is an absolute necessity, regardless of whether the aim is to mobilise companies and government authorities, to enable a comparison of results and make results measurable, or to inspire our customers. We like to shoulder our responsibility here and are making every effort to enter into collaborations that will bring us a step closer to a sustainable world.

2 Long-term objective

Since we regard climate change as a highly urgent, profound crisis, it is a material topic for us. It is essential for everyone to make a contribution to tackling the climate crisis. Our efforts are aimed at limiting global warming to a maximum of 1.5 degrees, in line with the Paris Agreement. Our ambition is to align all our loans and investments with the 1.5 degrees scenario by applying Science Based Targets, while aiming for a net-zero society in which CO_2 emissions are reduced to zero as far as possible and in which other emissions are extracted from the air by means of carbon removal and storage.

NET ZERO

Seeking to gain insight into the CO_2 emissions of our loans and investments, in 2013 we developed a climate profit and loss account indicating to what extent our investments are climate neutral. We take 'climate neutral' to mean that the greenhouse gases associated with the bank balance sheet, for example because we finance a mortgage on a home, are equal to the emission of CO_2 equivalents we avoid by financing a wind farm, for example.

Developing methodologies and improving available data allows us to change the 'climate-neutrality' objective to '(beyond) net zero'. The latter means that the bank balance sheet accounts for net-zero emissions, or 'negative' emissions. We address this issue as follows. We reduce the emission of greenhouse gases attributable to the bank balance sheet as close as possible to zero. The nature of our balance sheet entails that we cannot reduce emissions fully to zero, which means that some emissions remain. We take the remaining emissions out of the air by financing projects that absorb CO_2, such as regenerative agriculture and biobased projects. Consequently, 'net zero' goes a step further than 'climate neutral' – the remaining emissions are not offset by avoided emissions, but are absorbed from the atmosphere. If we succeed in absorbing more emissions than the emissions attributable to the bank balance sheet, we have achieved 'beyond net-zero' emissions.

The main activities we will use to create a net-zero or beyond net-zero balance sheet correspond to three groups of assets on our bank balance sheet:

1. mortgages: we aim for a further reduction in greenhouse gas emissions in the retail mortgage portfolio;
2. SME loans: we reduce greenhouse gas emissions arising from the SME loan portfolio;
3. sustainable project loans:
   a. new sustainable loans for projects that remove CO_2 from the atmosphere contribute directly to the net-zero target;
   b. we continue to finance renewable energy projects that make an indirect contribution by boosting the energy transition.

PARTNERSHIP FOR CARBON ACCOUNTING FINANCIALS

In 2016, we were one of the initiators of the Partnership for Carbon Accounting Financials (PCAF). PCAF has developed a uniform standard to help the financial sector calculate financed emissions and to report on them. PCAF published the most recent version of this global standard at the end of 2022. We depart from this last version on two points: the methodology for sovereign debt and the one for mortgages. We apply both these changes immediately when adopting the net-zero target. In 2024, we will start reporting on the progress made towards this target.

SCIENCE BASED TARGETS

Science Based Targets dictate how much and how quickly the emissions of relevant activities need to be reduced to prevent global temperatures from rising above 1.5 degrees.
The Science Based Targets initiative (SBTi) approved de Volksbank's Science Based Targets in November 2022, making us the first Dutch bank to apply validated Science Based Targets.

ASN Bank
In 2018, ASN Bank achieved its objective of being climate neutral in all its loans and investments. ASN Bank is a driver of sustainability within de Volksbank. As it also drives sustainability in the financial sector, ASN Bank sets great store by shouldering its responsibility. It does not wait for the government to prepare policy but takes action itself and phrases its own goals based on the premise that the process of combating climate change should be accelerated.

ASN Impact Investors
In 2018, ASN Impact Investors set itself the goal of its total investments having a positive climate impact by 2030. This means that, from that time, all investments together should withdraw more greenhouse gases from the atmosphere than they emit.

De Volksbank
Most of the CO_2 emissions found at de Volksbank are caused by the activities it invests in. That is why it has set itself the goal of having a net-zero bank balance sheet in 2050 or earlier if possible.

CLIMATE MITIGATION

Mitigating measures are key in combating climate change. In this respect, we reduce greenhouse gas emissions were possible, and preferably to zero. Our approach is based on the mitigation hierarchy, which indicates how effective measures are – from highly effective to less effective – in counteracting climate change.

1. Tackling greenhouse gas emissions

Tackling greenhouse gas emissions has the largest and most immediate impact on reducing global warming. For us, this means that we do not invest in companies involved in the production and refining of fossil fuels or in energy generation from fossil fuels. We also avoid companies that consume large amounts of fossil fuels in their production processes. We will explain this in more detail in Chapter 5.

2. Reducing greenhouse gas emissions

The next step towards an effective impact is to reduce greenhouse gas emissions. Our emissions are largely made up of the emissions of retail and SME customers to whom we provide mortgage loans.

We support our mortgage customers in various ways in reducing their CO_2 emissions:

- Our mortgage customers may include energy-saving measures, such as insulation and solar panels, in their mortgage or take out a separate loan for them.
- Our mortgage advisers help customers get an overview of how they can save energy.
- Customers may obtain information about energy-saving measures, gain insight into suitable options for their own homes and request quotations through our brands and through our collaboration with partners.

3. Replacement of energy sources

The third step is to replace energy sources that emit greenhouse gases with energy sources that avoid such emissions. We have provided project loans to wind farms and solar energy and biomass projects for years. We will continue this policy in the next few years in order to keep promoting the energy transition.

4. Removal of CO_2 from the atmosphere

It is impossible to reduce the CO_2 emissions of all our activities to zero. Some emissions will always remain. The last step is to extract those emissions from the atmosphere and store them for a long period of time. We set requirements on CO_2 removal and storage in line with the four principles of carbon dioxide removal:

1. The CO_2 is physically removed from the atmosphere.
2. The CO_2 is permanently stored (for more than 100 years).
3. The total emissions resulting from the process are included in the emission balance.
4. The total amount of CO_2 taken from the air is greater than the total quantity emitted.

Projects like Carbon Capture and Storage (CCS) do not comply with these four principles and are therefore rejected. We choose natural solutions such as forestry, regenerative agriculture and biobased construction. CCS is a way of capturing CO_2 and storing it underground before it is emitted to the atmosphere as a greenhouse gas. A major drawback of this technical solution is that the technology needed for this is still in its infancy.

Another method is Bio-Energy with Carbon Capture Storage (BECCS). This method requires large quantities of biomass, which the Netherlands does not have.
When selecting CO_2 removal methods, we also need to consider the supply chain as a whole, such as direct and indirect land use, the use of raw materials, social consequences and the impact on the environment and biodiversity. Many methods carry a high risk of adversely impacting the living environment and biodiversity[16].

That is why we have balanced costs, the space needed, raw materials consumption and the suitability of the technique. On this basis, we prefer natural solutions. These have proven to be effective and benefit both biodiversity and the living environment. The challenge for this method is the shortage of space and projects.

CLIMATE ADAPTATION

Worldwide, too little action was taken in the past few decades to tackle global warming. When action was taken, it was too late, insufficient resources were freed up and the implementation of measures often fell short of expectations. As a result, merely taking action to mitigate climate change is insufficient. The Dutch climate is warming at a faster rate than previously calculated. We are now headed for more than 2 degrees of warming[17]. This means that a changing climate is inevitable, which results in changing weather patterns. These force us to also invest in activities that mitigate these effects, i.e. climate adaptation.
Climate adaptation involves the implementation of measures that adapt the Netherlands to the changing climate. At the same time, solely focusing on adaptation measures is insufficient. If the temperature increases by more than 1.5 degrees[18], options for adaptation rapidly decline. This calls for a strategy in which climate mitigation and climate adaptation reinforce each other, allowing us to exploit the synergy and prevent negative interactions.

The IPCC reports mention measures where this synergy may be seen, in forestry for example. Forests naturally store carbon (mitigation) and retain water (adaptation). This also works the other way around. If people adapt their homes to prepare for climate change, for example by placing more greenery in their gardens or by collecting rainwater (adaptation), in most cases they will also reduce their impact on the climate (mitigation). And the more climate change is mitigated, the fewer adaptation measures will be needed.

CLIMATE CHANGE AS A FINANCIAL RISK

The profundity of climate change and its effects renders it necessary to form a proper picture of the potential financial consequences for our institution. Collateral is subject to physical climate risks, such as damage to our customers' commercial buildings and homes due to drought, storms and flooding. This damage could result in financial risks for our customers and therefore in a financial risk for the bank, for example because the damage reduces the value of the collateral. We are aware that homes and commercial buildings that are better prepared for the effects of climate change are likely to better retain their value.
In addition, there are transition risks. Technological developments, changes in laws and regulations and other factors will change economic activities and structures, thereby creating new risks and opportunities for our retail and SME customers.

16 Methodes voor CO_2-verwijdering (natuurenmilieu.nl)
17 KNMI - Nederland warmt ruim 2 keer zo snel op als de wereldgemiddelde temperatuur
18 VN-klimaatpanel: Beperkte tijd voor effectieve aanpassing aan klimaatverandering | PBL Planbureau voor de Leefomgeving

3 Application of the policy

Below, you will read how we contribute to combating climate change in our banking practices.

SELECTION, ENGAGEMENT, DRIVING CHANGE

Country selection

Our assessment of countries includes an assessment of their commitment to the Paris Agreement. Countries are excluded if they do not actively reduce the effects of climate change. Our assessment of countries also covers their per capita emission of greenhouse gases and their share of renewable electricity generated in total electricity generated.

COMPANY SELECTION

We exclude investments in companies that are active in the exploration and refining of fossil fuels[19]. We also avoid financing and investing in activities that contribute substantially to greenhouse gas emissions. By contrast, we do invest in activities with low greenhouse gas emissions. We will explain this in more detail in the selection criteria section.

Engagement with policymakers (advocacy)

In line with our strategy, we consistently bring the urgency of the climate problem to the attention of policymakers. The climate issue is a systemic problem that calls for action by administrators of government agencies.

At a more practical level, we present various proposals in collaboration with other financial institutions and partners outside our sector. These proposals – involving the provision of loans – should make it easier for private individuals and companies to reduce their adverse impact on the climate and increase their positive contributions.

Our role as a driver of sustainability

We believe that we are inspiring, unifying and driving the financial sector when it comes to climate policy. We do this by setting goals, measuring the climate impact of our investments and continuously tightening our climate policy. So far, this has resulted in the following decisions and activities:

- When ASN Aandelenfonds was launched in 1993, we decided not to invest in fossil fuels.
- In 2007, we were the world's first financial institution to publish an investment fund's carbon footprint.
- In 2011, we were the first bank in the world to set a climate target for our bank balance sheet – to be climate neutral by 2030. This target was partially intended to inspire other banks to follow suit.
- During the 2015 Paris Climate Change Conference, we took the initiative to establish the Partnership for Carbon Accounting Financials (PCAF)[20]. The initiative has now grown to become an international partnership that publishes an international standard for financial institutions to measure their climate impact. After four years of chairing PCAF Netherlands, we are now still active as a member. We also helped establish the PCAF Global Steering Committee[21]. In 2022, we terminated our active role in the international PCAF branch; our pioneering role in this area has been completed. However, we continue to be closely involved in the activities of PCAF Netherlands, as our banking activities are mainly carried out in the Netherlands.
- In 2018 we co-initiated the Spitsbergen Ambition for the Dutch financial sector[22]. This ambition proved to be a major step towards the financial sector's Climate Commitment, which is part of the Dutch Climate Agreement[23].
- In 2018, we achieved our objective of being climate neutral in all our loans and investments. We then increased our ambition to being climate positive (ASN Bank). De Volksbank has now adopted the climate-neutrality objective and the corresponding policy.

19 We have made temporary exceptions in some specific cases. These are small companies that were already customers of de Volksbank before our policy was also made applicable to small and medium-sized businesses. We strive to terminate the relationship, but want to prevent a company from being placed in an untenable position due to our unilateral actions (possibly resulting in forced redundancies).
20 https://www.rtlnieuws.nl/geld-en-werk/artikel/839476/financiele-instellingen-richten-klimaatmeetlat-op
21 https://carbonaccountingfinancials.com/
22 https://www.asnbank.nl/nieuws-pers/financiele-sector-presenteert-spitsbergen-ambitie.html
23 https://www.duurzaambedrijfsleven.nl/finance/31943/klimaatakkoord-financiele-sector

- In 2021, we submitted our Science Based Targets to align our goals with the 1.5 degrees of warming scenario. In 2022, we were the first Dutch bank to apply validated Science Based Targets.
- In 2022, we commissioned a study into the effects of financing projects that naturally remove CO_2 from the atmosphere[24]. The study assessed both the CO_2 absorption capacity and the consequences for the risk and return of the loans. We are looking for transitions that are of direct interest to us and where we expect we can make a difference and make a demonstrable contribution by driving change. In the period ahead, we will focus on a transition in construction, specifically from cement to cross-laminated timber.
- In 2022, de Volksbank and ASN Impact Investors published their climate action plans. De Volksbank aims for a net-zero bank balance sheet in 2050, or earlier if possible. ASN Impact Investors has chosen the objective of beyond net zero by 2030 (previously climate positive by 2030).

24 Rapport ism natuurverdubbelaars https://www.natuurverdubbelaars.nl/

4 Climate selection criteria

In our sustainability research, we apply climate criteria that determine which countries, companies, institutions or projects we will finance or invest in. This chapter describes the conditions for a positive or negative assessment.

CONDITIONS FOR A POSITIVE ASSESSMENT

Mitigation activities

As part of mitigation, we invest in activities that help create a net-zero society. Energy efficiency plays a major role here. We consider energy efficiency to be the most cost-effective way to limit greenhouse gas emissions. That is why, first of all, we select investments that make a relatively small contribution to greenhouse gas emissions. We also invest in energy-saving techniques such as insulation, heat pumps and thermal energy storage. Our Annual Report states how much we contribute every year to reducing CO_2 emissions and to the energy transition.

If we are to reduce CO_2 emissions in the built environment, it is key that we make existing homes energy efficient. As a bank, we regard it as our social duty to encourage homeowners to take this step and to support them in this. That is why we promote not only the construction of sustainable buildings and sustainable new properties, but especially also the conversion of existing homes into sustainable dwellings. Unlike many other banks and institutions, we do not intend to only reward the owners of homes that already have a sustainable energy label – we want to encourage everyone to implement sustainability measures in their homes. More information about this can be found in the Housing SSP.

Renewable energy generation is an important instrument for reducing greenhouse gas emissions. Various types of renewable energy generation qualify for investment, such as solar energy, wind energy, geothermal heat, heat pumps, hydropower and tidal energy. Biomass can also be added to this list under certain conditions. See the Renewable Energy SSP policy paper for the details of our policy.

Our loans and investments not only avoid CO_2 emissions but are also increasingly targeted at removing CO_2, i.e. absorbing CO_2 from the atmosphere and storing it for a long period of time. An example here are activities aimed at preserving and expanding woodlands. Although these activities literally counterbalance the increasing CO_2 emissions, a limitation is that there are currently few options to finance natural CO_2 removal.

Adaptation activities

As part of adaptation, we aim to increase the number of loans and investments in such areas as water management. We also contribute to adaptation by financing absorption projects, such as water retention by means of forestry.

Furthermore, we want to enable our customers to finance adaptation measures such as a green roof by offering products like a sustainable personal loan. By collaborating with suppliers, we also aim to help customers create a green garden or collect rainwater, for example, in order to adapt their surroundings to climate change.

CONDITIONS FOR A NEGATIVE ASSESSMENT

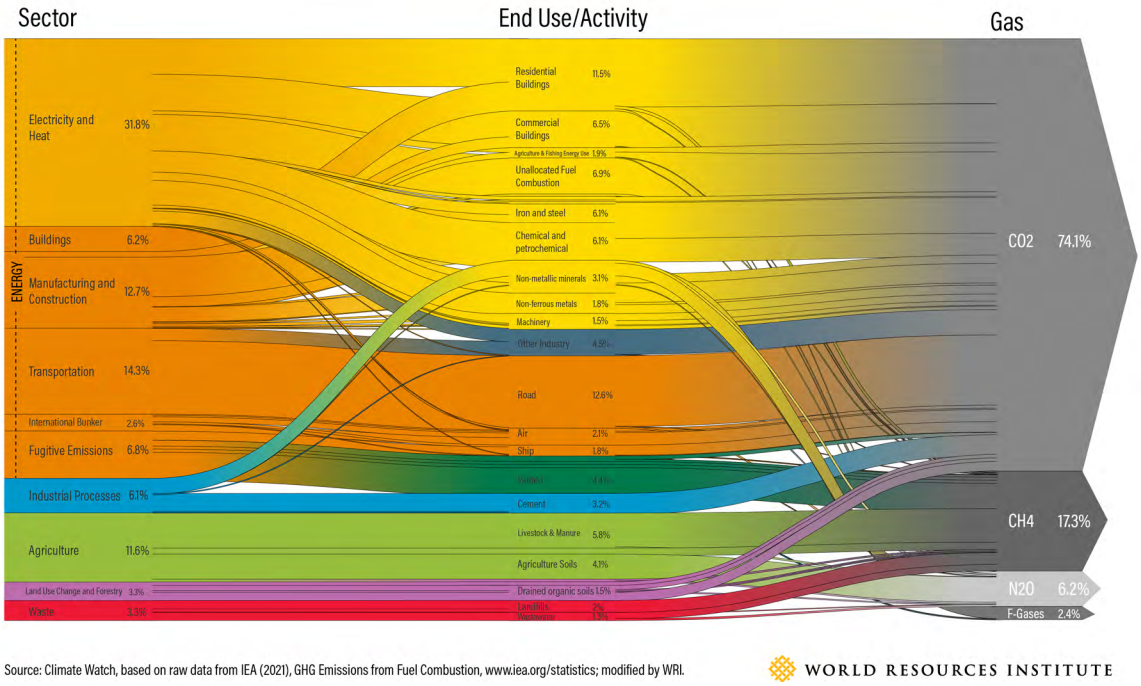
Activities to be excluded

We do not finance or invest in activities that directly and indirectly emit large amounts of greenhouse gases.

We have subdivided these activities in:
1. the production of electricity or heat that causes substantial greenhouse gas emissions;
2. activities that cause substantial greenhouse gas emissions in the production process;
3. products that cause substantial greenhouse gas emissions in the use phase.

Global greenhouse gas emissions

World Greenhouse Gas Emissions in 2019 (Sector | End Use | Gas)
Total: 49.8 GtCO2e



Source: Climate Watch, based on raw data from IEA (2021), GHG Emissions from Fuel Combustion, www.iea.org/statistics; modified by WRI. WORLD RESOURCES INSTITUTE

Source: https://files.wri.org/d8/s3fs-public/2022-06/world-ghg-emissions-2019.png

Re 1: The production of electricity or heat that causes substantial greenhouse gas emissions

The production of electricity and heat accounts for the largest share of greenhouse gas emissions. We do not provide loans for and do not invest in electricity and heat production that directly and indirectly emits large amounts of greenhouse gases and has numerous other undesirable side effects.

Lignite, coal, shale gas and oil (e.g., tar sands oil)

The production of electricity and heat based on lignite, coal, shale gas and oil (such as tar sands oil) accounts for the largest share in greenhouse gas emissions per unit of energy generated. Although these emissions can be reduced by improving efficiency, we do not consider this sufficient. We believe there is no such thing as 'clean coal-fired power plants', not even if the CO_2 is stored in gas fields, for example (Carbon Capture and Storage; CCS).

Natural gas

We exclude electricity and heat production by means of natural gas. Nevertheless, from a climate perspective this form of electricity generation is clearly preferred to electricity from other fossil sources, as greenhouse gas emissions are considerably more limited. However, not only the combustion of natural gas leads to emissions; the extraction of natural gas also causes greenhouse gas emissions in the form of methane. We are aware of the relative benefits of natural gas but have opted to invest in considerably more sustainable sources like wind and the sun, which produce a greater climate benefit per euro invested.

Biofuels

We invest in and finance biofuels on a limited scale. Biofuels are used to generate electricity or heat or to produce biodiesel and biopetrol. Many materials can serve as a basis for biofuel, including maize, grass, straw, manure and wood. They do not all make the same contribution to the reduction in greenhouse gas emissions and they each have their own adverse impact on biodiversity.

Biofuels based on agricultural crops, i.e. first-generation biofuels, can reduce CO_2 emissions throughout the production chain by no more than half.

Given the sustainability risks and possible competition with our food supply, we exclude investments in this type of biofuel. We also believe that wood should only be used as a biofuel to a limited extent and under strict preconditions. See the Renewable Energy SSP for the details of these conditions.

Re 2: Activities that cause substantial greenhouse gas emissions in the production process

Activities that emit large amounts of greenhouse gases include mining, the extraction and production of lignite, coal, oil (e.g., tar sands oil) and gas (e.g., shale gas), basic chemicals (including petrochemistry), base metals, and cement production.

Extraction and production of lignite, coal, gas (e.g., shale gas) and oil (e.g., tar sands oil)

We do not invest in the exploration, production and refining of fossil resources. Lignite, coal, gas and oil extraction and production contribute substantially to greenhouse gas emissions. Shale gas and tar sands are known as 'non-conventional' sources of fossil energy. They not only make a significant contribution to greenhouse gas emissions but, above all, pose new sustainability risks to people and the environment during extraction.

Mining

We exclude investments in mining companies or mining activities involved in the extraction of non-renewable primary raw materials. These companies are generally large consumers of fossil fuels and the industry also tends to cause other major environmental problems. Moreover, their activities regularly lead to serious human rights violations.

However, we can invest in mining companies in exceptional cases, for example in the extraction of raw materials that are essential for taking sustainability measures. These companies must lead the way in their industry and meet all our human rights, climate and biodiversity criteria. In practice, we have yet to encounter such mining companies. An example of such a mine could be a salt mine.

Base chemicals (including petrochemistry) and base metals

We avoid the base metals and base chemicals industry as long as it primarily uses fossil energy sources and, as such, is responsible for the sizeable emission of greenhouse gases and other harmful substances. This industry includes companies that convert petroleum into bulk material for the chemical industry, such as ethylene and polymers. See the Plastics SSP for the details of the conditions.

Cement production

We avoid companies that manufacture cement, as this entails high greenhouse gas emissions and degrades ecosystems.

Deforestation

We do not invest in companies that are involved in deforestation. Deforestation entails the large-scale logging or burning of old-growth forests, tropical rainforests or mangrove forests, which severely impacts the climate. The same holds true for peat extraction.

When trees and plants grow, they take CO_2 out of the air. Forests with a high carbon content, i.e. High Carbon Stocks (HCS), are able to absorb and retain large amounts of CO_2. Forests also serve as a water buffer, thereby maintaining the groundwater level, they protect the soil from erosion and they mitigate temperature differences.

The loss of forests results in desertification. Forests are logged legally and illegally for the sale of timber, as well as for mining and oil and gas extraction, infrastructure construction, the establishment of palm oil plantations, soy cultivation and livestock farming.

Re 3: Products that cause substantial greenhouse gas emissions in the use phase

These mostly include activities that require a specific assessment. There is a trend towards the increased production of climate-friendly solutions. A relative climate benefit can also be gained by using other means. For example, public transport based on fossil fuels is preferred to transporting the same number of people in individual cars.

Transport

Although the manufacture of combustion engines is not in line with our vision of a sustainable society that refrains from using fossil fuels, we do not exclude the application of fuel-powered engines in, for example, buses

used for public transport. We assess this on a case-by-case basis. See the Transport and Mobility SSP for a more detailed explanation.

Agriculture and livestock farming

This sector has many disadvantages from a climate perspective, such as deforestation for the purpose of livestock farming or for soy and/or palm oil plantations, lower water levels in peatlands, long supply chains and the methane emissions of cattle. However, an increasing number of initiatives succeed in avoiding these effects, such as regenerative agriculture. That is why we assess these investment options on a case-by-case basis. See our Biodiversity SP and our Agriculture SSP for a more detailed explanation.

5 Our own business operations

Our largest impact is caused by the loans we provide and the investments we make. The impact of our business operations is just a fraction of our total CO_2 emissions. As we obviously also aim to minimise the adverse impact of our own business operations, our efforts include the following:

- Aiming for an annual reduction in CO_2 emissions, we have set a reduction target that we report on in the Annual Report.
- We procure green energy where possible.
- We aim to fit out our office buildings in an energy-efficient way[25].
- As de Volksbank has applied the principle of the New World of Work (NWW) since 2011, our employees partially work from home. Since not travelling is more sustainable than any form of travelling, de Volksbank's CO_2 emissions have dropped significantly.
- Reducing plastics is a major objective as part of our ambition to decrease waste production. Plastic stirrers have been replaced by wooden stirrers and disposable packaging has been abolished in the company restaurants to the greatest extent possible.
- Employees are encouraged to use their own mugs. We intend to introduce reusable cups for both guests and employees.
- Our used laptops are refurbished by people with a distance to the labour market. They are then made available to an orphanage in Romania, to a school in Ghana, and to schools, food banks and foundations for dementia in the Netherlands.

CO_2 emissions arising from our business operations that we cannot reduce are offset. De Volksbank has opted to sustainably store CO_2 in a certified forest project.

The above are examples of measures we are taking in our own business operations. See our web page on sustainable business operations for a complete and up-to-date overview[26].

25 ASN Impact Investors is part of the Volksbank and uses the Volksbank's business operations. ASN Impact Investors shares an office with ASN Bank and uses, among other things, the IT infrastructure of the Volksbank.

26 https://www.devolksbank.nl/verantwoord-bankieren/duurzaamheid/duurzame-bedrijfsvoering

Appendix 1: Glossary

Carbon Capture and Storage (CCS)
CO_2 is captured in industrial processes and in power plants that generate energy using fossil fuels. Subsequently, the CO_2 is stored in deep, sedimentary geological formations, in depleted oil and gas fields or through cutting-edge oil reclamation techniques adapted in such a way as to guarantee long-term storage.

Climate Action Plan
At the end of 2022 approximately fifty Dutch financial institutions published their individual climate action plans, in which they indicate how they aim to reduce greenhouse gas emissions.

Climate Agreement
The Dutch Climate Agreement is a set of measures and agreements between companies, civil society organisations and Dutch government authorities intended as a joint effort to halve greenhouse gas emissions in the Netherlands in 2030 relative to 1990.

Climate Commitment (Dutch financial sector)
In 2019, around fifty Dutch banks, insurance companies, pension funds and asset managers made a commitment to contribute to achieving the goals of the Paris Agreement and the Dutch Climate Agreement. The commitment entails an obligation for participating financial institutions to report on the effects that their loans and investments have on the climate, starting in 2020. They also agreed that they would prepare an action plan before the end of 2022 in which they would state how they intended to reduce the impact of their activities on the climate.

Climate neutrality
CO_2e emissions emitted are equal to CO_2e emissions avoided or stored.

Climate profit and loss calculation methodology
A methodology we annually use to prepare our climate profit and loss account. We calculate all CO_2 emissions of our investments. We then place the investments that avoid CO_2 emissions – such as wind turbines, solar farms and thermal energy storage – on the profit side. Investments that emit CO_2, such as residential mortgages and loans provided to companies, are placed on the loss side. If both sides are in balance, i.e. the CO_2 profit is equal to the CO_2 loss, our activities are climate neutral.

CO_2 (carbon dioxide)
A greenhouse gas that is produced primarily by burning fossil fuels and that contributes to climate change.

CO_2e
'CO_2e' stands for 'CO_2 equivalents'. By calculating the emission of other greenhouse gases as equivalents of CO_2, the effects of different greenhouse gases can be compared. This calculation method was developed by the United Nations Intergovernmental Panel on Climate Change (IPCC).

Due diligence
Analysis of an organisation's economic, legal, tax, financial and other aspects.

Greenhouse gases
The Kyoto Protocol classifies seven gases as greenhouse gases, which must be included in national inventories according to the United Nations Framework Convention on Climate Change (UNFCCC). These gases are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trichloride (NF_3). Each gas contributes to global warming in its own way.

Intergovernmental Panel on Climate Change (IPCC)
The United Nations Intergovernmental Panel on Climate Change. This organisation was established to make scientific assessments of the risks of climate change.

Mitigation hierarchy
The effects of human activity on the climate can be eliminated by following four steps:
1. discontinue the activities that cause emissions;
2. reduce greenhouse gas emissions (by means of efficiency improvements);
3. replace energy from fossil fuels with energy from renewable sources;
4. offset the remaining emissions by taking CO_2 out of the atmosphere.

Net zero
'Net zero' means that greenhouse gas emissions are reduced to the greatest extent possible, while the remaining emissions are removed from the atmosphere (by forests or oceans, for example).

Paris Agreement
The Paris Agreement is a legally binding, international treaty on climate change. It was signed by 196 countries during the United Nations Conference of Parties 21 (COP21) in Paris on 12 December 2015 and entered into force on 4 November 2016. The purpose of the Agreement is to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and preferably to 1.5 degrees Celsius. In order to reach this long-term temperature target, the participating countries aim to achieve a net-zero situation halfway through this century by ensuring that global greenhouse gas emissions are reduced as quickly as possible.

Partnership for Carbon Accounting Financials (PCAF)
A uniform standard that the financial sector uses to calculate financed emissions and to report on them.

Removal projects
Projects that aim to take CO_2 out of the atmosphere in a natural way. These projects are necessary, as it is not possible to reduce all CO_2 emissions to zero, not even in the medium term.

Science Based Targets (SBT)
SBTs show how much and how quickly the emissions of relevant activities need to be reduced to contribute to a maximum global temperature increase of 1.5 degrees.