



IP&L: Measuring long-term value creation

Summary report

Measurement performed by  True Price™

Our goal is to create long-term value for our stakeholders

The world is changing. Society expects us to put our clients first, ensure a stable financial system and address the challenges of our time, such as climate change. In recent years we have been working on becoming a sustainable bank, launching various initiatives in green energy and human rights. We have now decided it is time to put this commitment front and centre. Our goal is to create long-term value for our stakeholders: our clients, our employees, society at large and our investors.

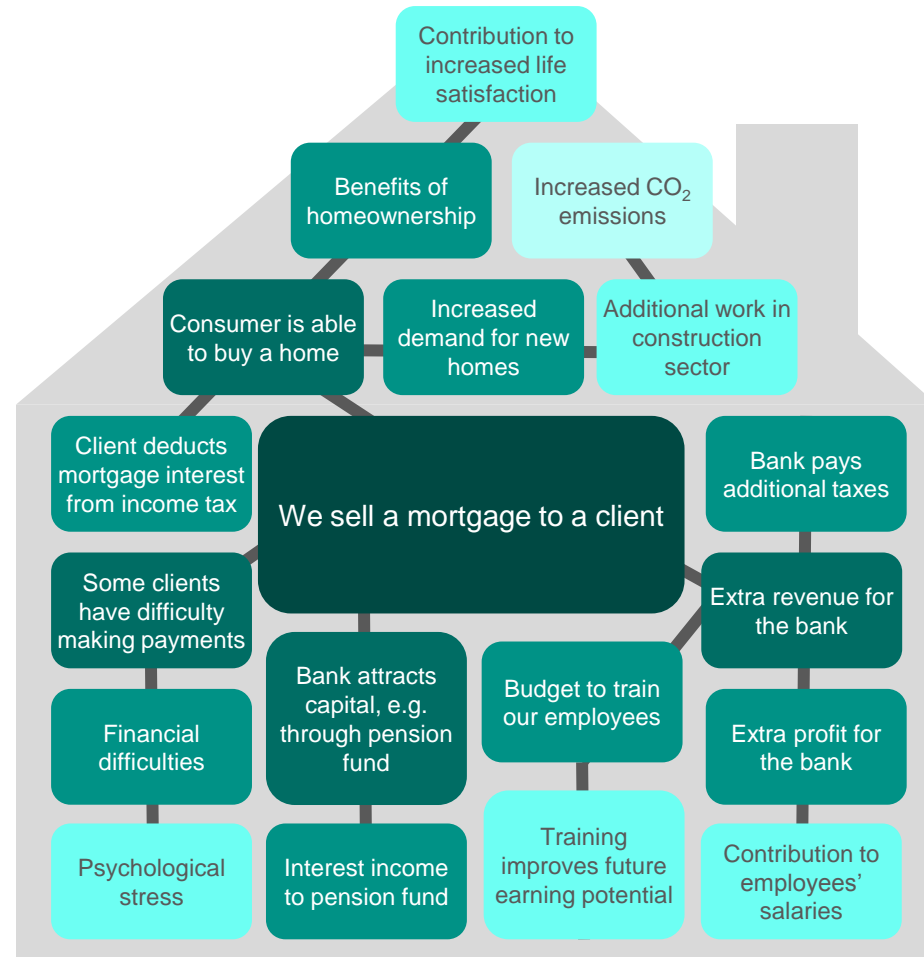


“It’s about making a difference for our key stakeholders.”

Kees van Dijkhuizen, CEO

Can we measure long-term value creation?

One challenge we face is how to measure the value we create for our stakeholders. This requires an understanding of the impact of our actions; we need to balance trade-offs between different impacts, the present and the future, and the interests of different stakeholders. This cannot be done in an effective or credible way if we do not measure the value we create. But how can we measure long-term value creation?

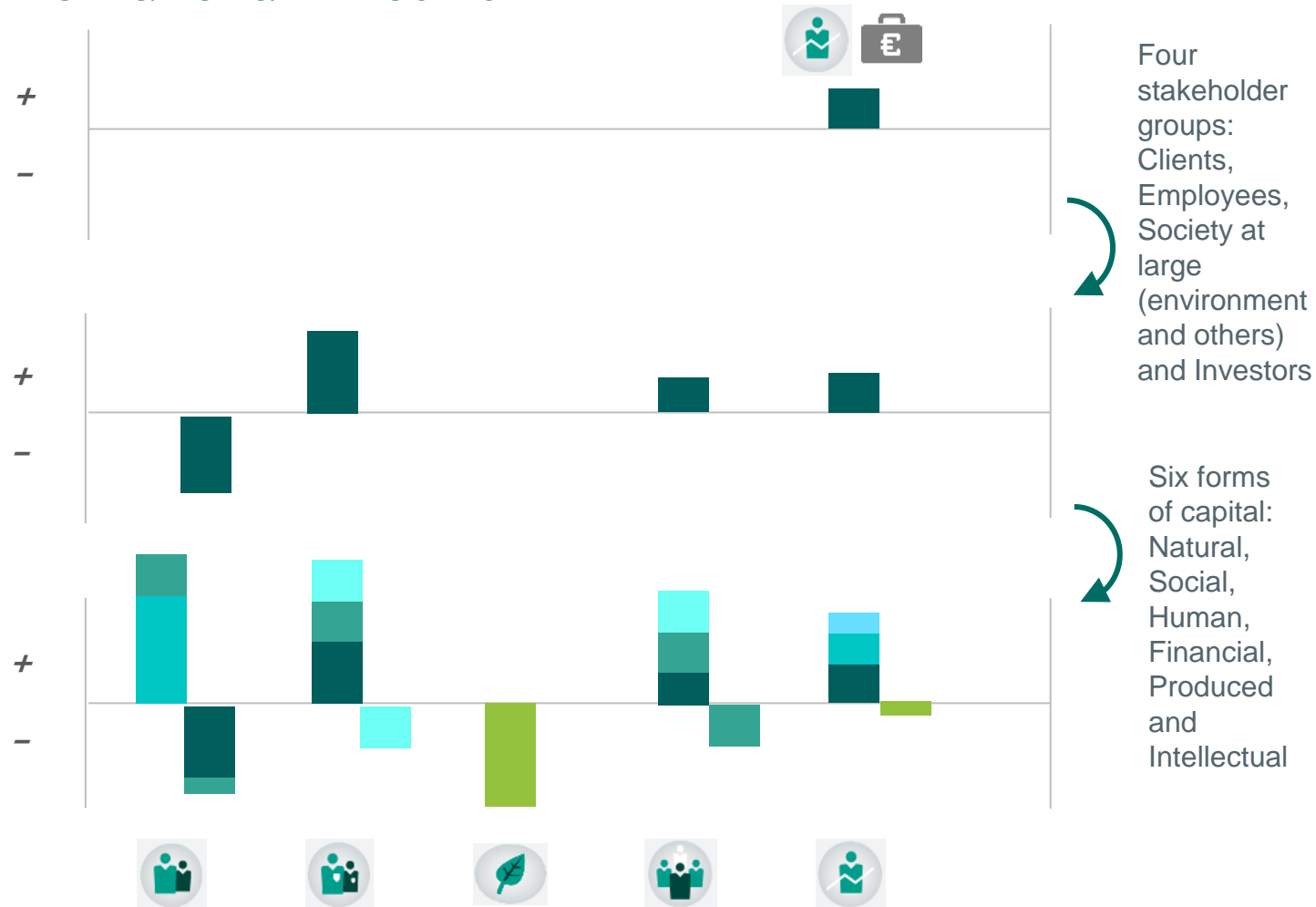


Our actions have many effects that determine the value we create for stakeholders. This figure shows some of the things set in motion when we sell a mortgage.

Yes, we can: Integrated Profit & Loss

The Integrated Profit & Loss account (IP&L) gives us a tool to measure our value creation for stakeholders. It shows how much positive and negative value we create for society. The IP&L is an extension of the traditional P&L, which captures financial value creation for shareholders; the IP&L captures financial and non-financial value creation for all stakeholders. It quantifies our key impacts, such as profits, customer satisfaction and CO₂ emissions, and monetises these impacts to make them comparable.

FROM P&L TO IP&L IN TWO STEPS









The IP&L account extends the ordinary P&L account in two steps. First, it looks not only at investors, but at all stakeholders. Second, it measures not only financial capital, but all capitals.

The IP&L builds on existing frameworks

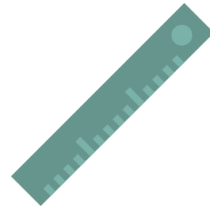
The IP&L was developed by the social enterprise True Price. It builds on existing frameworks, such as the CES framework of European statistics agencies (2014), the <IR> framework of the IIRC (2013), the Natural Capital Protocol (2015) and the Social Capital Protocol (2017). The IP&L defines value creation as the contribution to the well-being of people, now and in the future. True Price uses a list of 38 impact categories to assess the impact of an organisation. These impact categories can be grouped according to the six capitals of the IIRC.

SIX CAPITALS OF THE IIRC

Capital	Examples
 Financial	Profits, salaries, taxes
 Produced	New buildings, transportation, products
 Intellectual	Patents, data
 Natural	Climate change, water use, materials use
 Social	Social activities, nuisances to local communities
 Human	Health, job satisfaction, labour productivity

IP&L: A tool to measure, report & manage long-term value creation

The IP&L is a tool we can use to manage impact by measuring, reporting and managing value creation for stakeholders. We started using the IP&L in 2015 (see abnamro.com). By now, we are able to measure our value creation per stakeholder group and compare the value we create over the years. This means we can calculate our progress; it also helps us to understand our value creation and will enable us to manage and report on our impact.



Measure value creation for all stakeholders



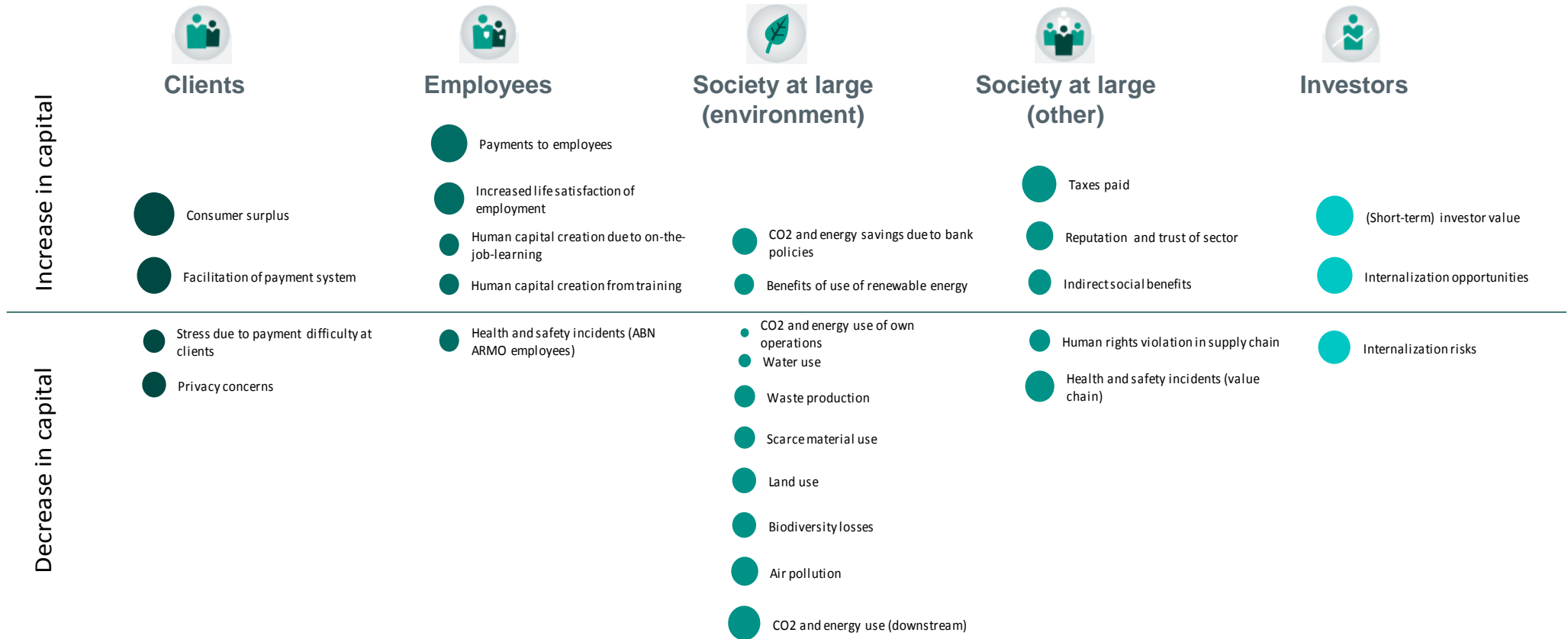
Report on value creation for all stakeholders



Manage value creation for all stakeholders

We are starting to better understand our value creation

Qualitative estimate of ABN AMRO's material impacts

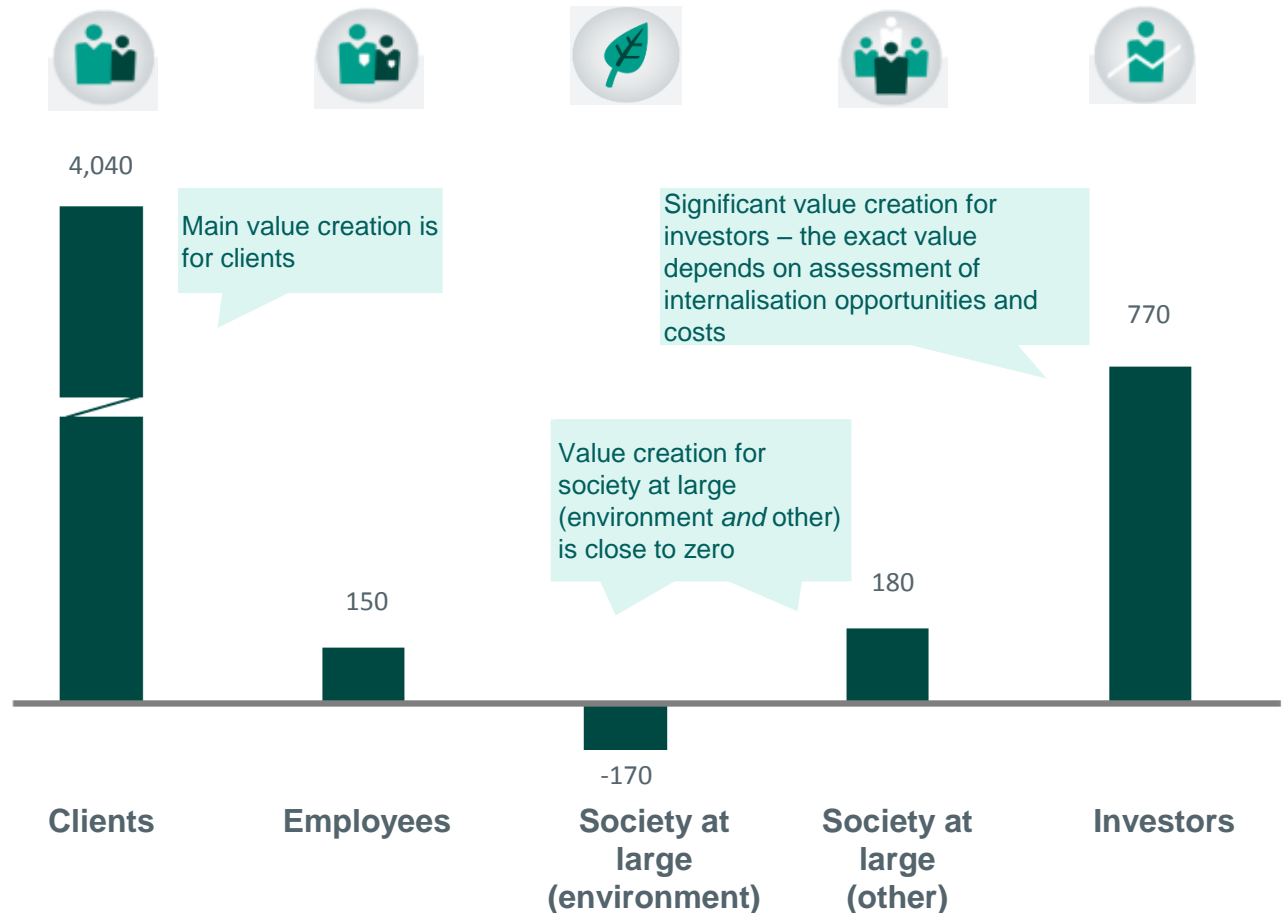


The IP&L helps us to better understand our value creation. We see that we create value in various ways for our stakeholders, but that we sometimes reduce value. One important issue is the loss of natural capital as a result of the economic activities we finance. We also see that investor value not only consists of short-term profit, but is also influenced by long-term risks and opportunities.

We can quantify our value creation for stakeholders

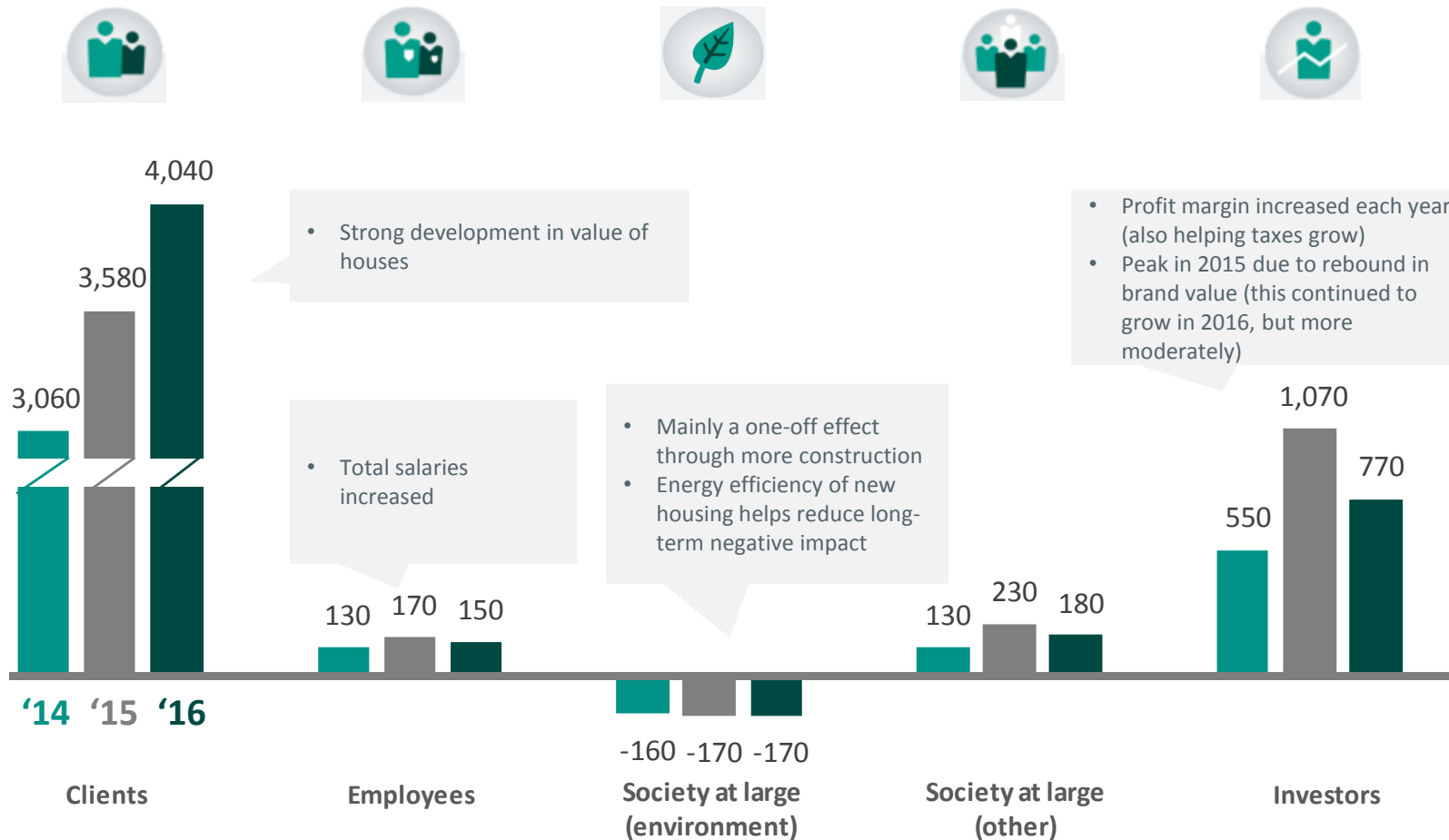
The IP&L enables us to quantify our value creation for each stakeholder group by quantifying, monetising and aggregating the various positive and negative impacts per stakeholder. The figure to the right is the IP&L for our mortgage services over 2016. It shows that we have net value creation for most stakeholder groups, except for the environment, and that we create the most value for our clients.

IP&L ABN AMRO mortgage provision 2016 (EUR million)



We can track performance over time

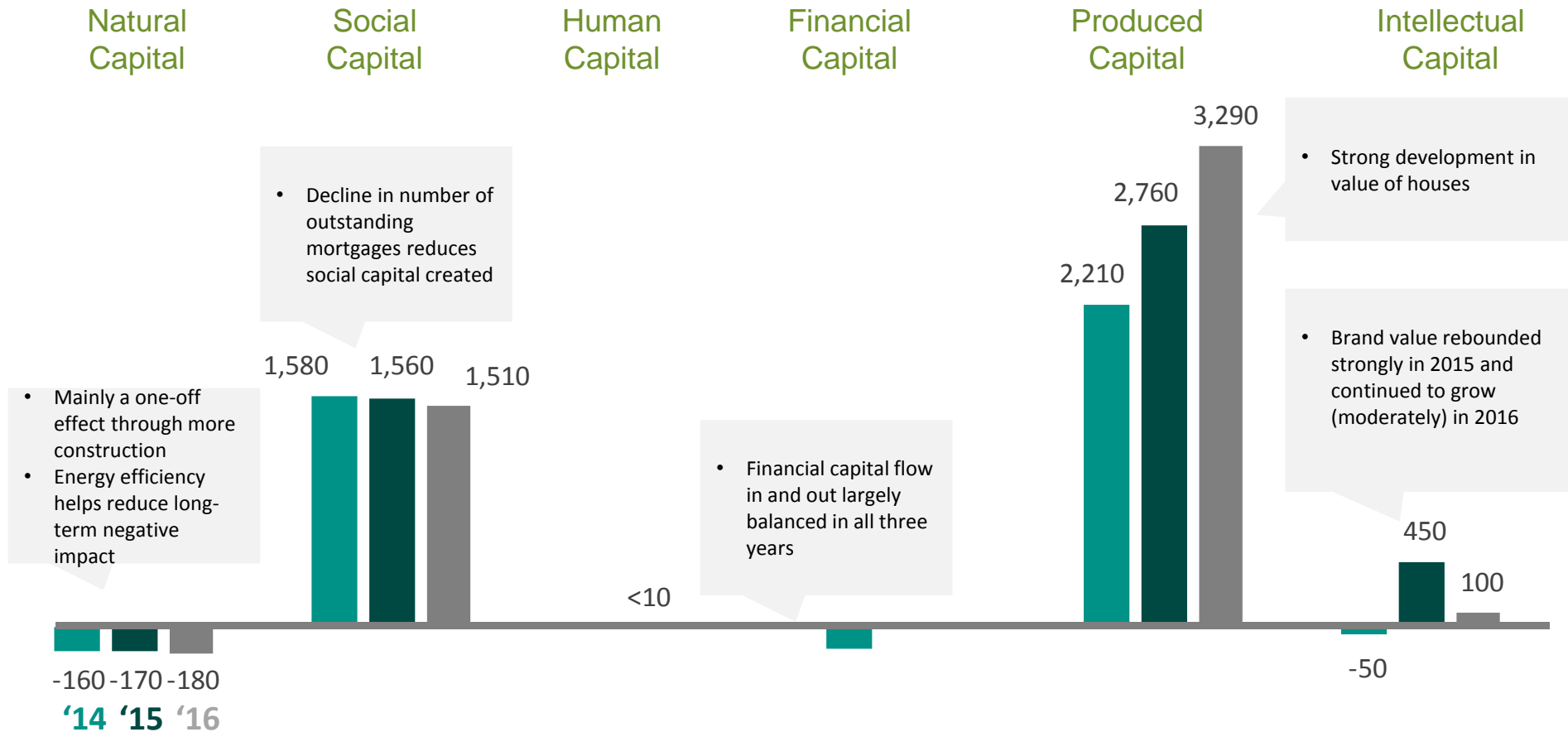
IP&L ABN AMRO mortgage provision 2014-2016 by stakeholder (EUR million)



This year, we improved the precision of the IP&L so that we can meaningfully compare value creation over the years. In the figure above, the IP&L is shown for mortgage provision from 2014-2016.

We can also analyse value creation per capital

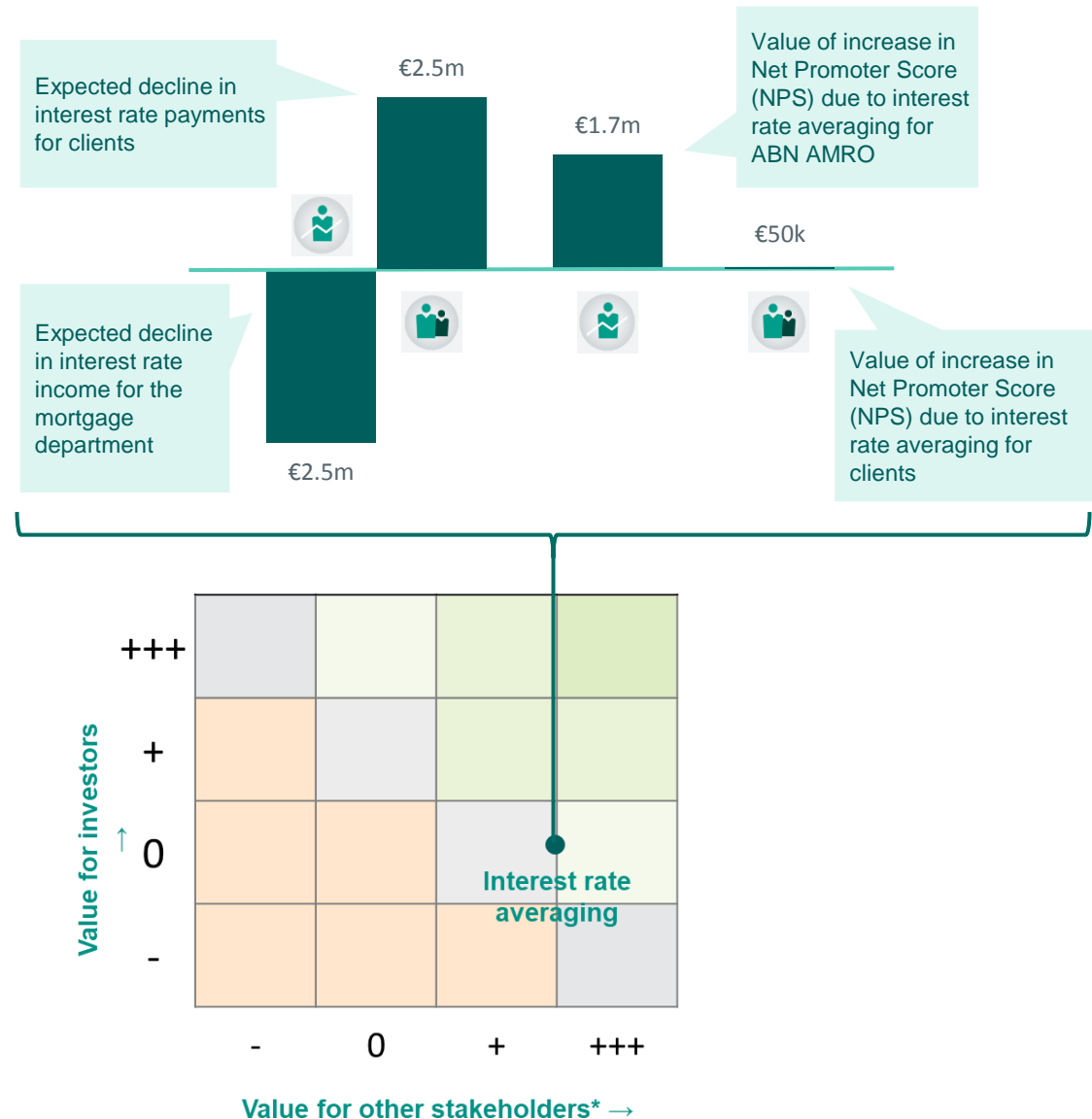
IP&L ABN AMRO mortgage provision 2014-2016 by capital (EUR million)



The IP&L measures value creation for each stakeholder based on financial capital and five non-financial capitals: natural capital, social capital, human capital, produced capital and intellectual capital. The figure above shows the value creation of our mortgage services broken down by capital.

We can apply it to map the value creation of business decisions

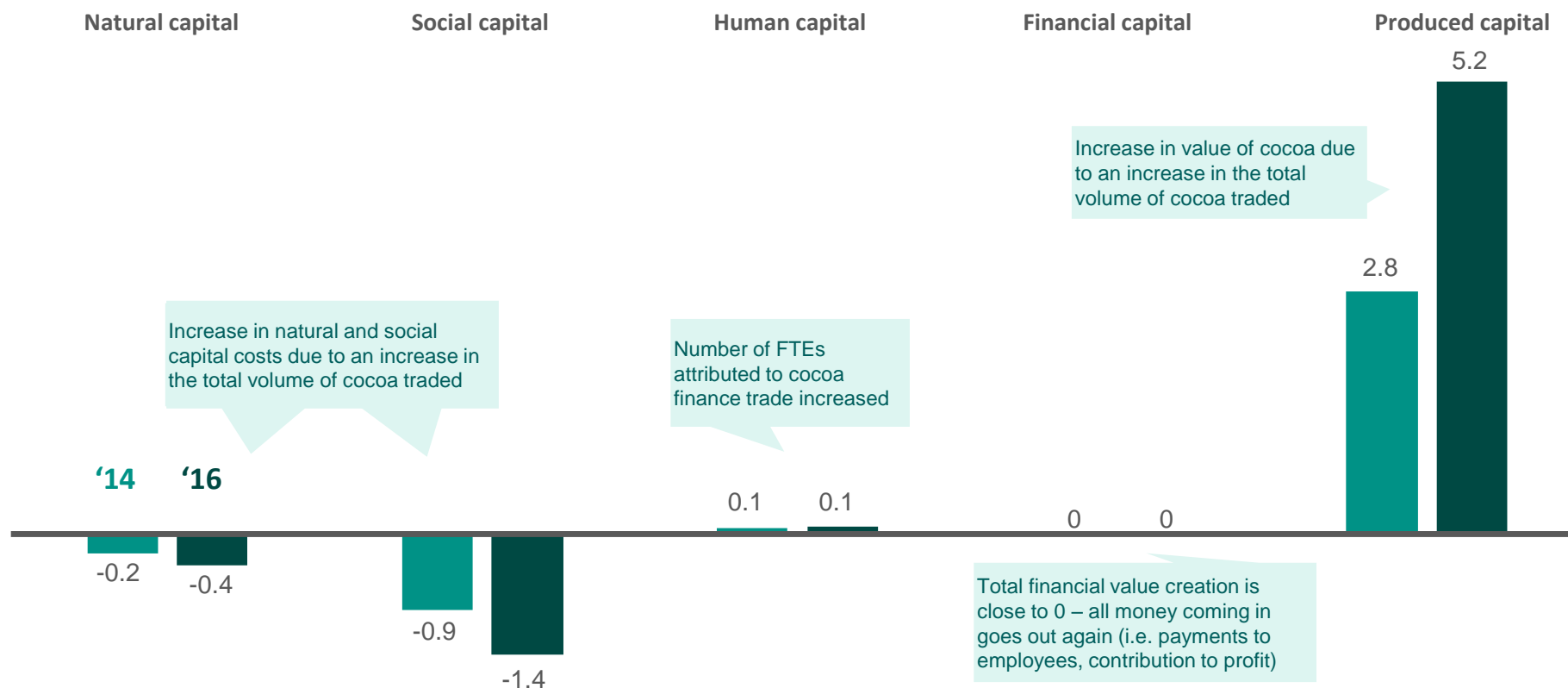
The IP&L can help us take business decisions by providing estimates on the positive and negative impacts on each stakeholder group. This can help us explore options that create value for all stakeholders. The figure shows the effects of interest rate averaging. Mortgage clients were allowed to reduce their interest rate to reflect strongly declined market rates. This led to long-term savings in interest rate payments for clients and improved customer satisfaction. For investors, this reduced profit, but it created brand value by increasing customer satisfaction.



The IP&L can be applied to different segments and services

IP&L of cocoa trade finance 2014 and 2016 by capital (EUR million)

Results are normalised and exclude incidental losses; intellectual capital impacts were not material.



The IP&L is a systematic way of measuring, valuing and accounting for impact. Hence, it can be applied to any element of a business, like a standard P&L. The IP&Ls of business units can also be added together to create the IP&L of a business as a whole. The above graph shows the IP&L of our cocoa trade finance activities broken down by capital.

Zooming in on results helps us identify what drives our value creation

The IP&L consists of specific impacts on a capital for a particular stakeholder. By looking more closely at the disaggregated results, we can identify which specific impacts contribute most to our value creation in a positive or negative manner. The figure to the right shows the individual impacts of our cocoa trade finance. It shows, for example, that the biggest impact for our employees is on their salaries, but that the non-financial value of working at ABN AMRO also matters. It also shows that the key impacts on the world are land use and underpayment.

IP&L ABN AMRO cocoa trade finance 2016 by impact



The IP&L helps us understand and improve how we create value for you

You are one of our stakeholders: whether you are a client using our services, an employee at one of our offices, an investor providing us with debt or equity capital, or a citizen who relies on a stable financial system and wants a liveable planet. We want to better understand how we have an impact on you so that we can improve by making our positive impacts bigger and our negative impacts smaller. The IP&L helps by giving us hard numbers as well as a starting point for a conversation about our impact. So please let us know what you think.





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Get in touch!

Measuring value creation