Environmental and Social Risk Framework

Wholesale Banking / Credit Risk Management / Environmental and Social Risk

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1 ESR Framework

1.1 Introduction

ING integrates sustainability considerations and objectives into its business strategy and actively manages social and environmental risks associated with its business engagements. In doing so, we mitigate risks; we also contribute to positive change by supporting clients that seek continuous improvement in environmental and social practices.

ING's Environmental and Social Risk (ESR) Framework applies to all its businesses and products (as defined in section 1.2). The ESR Framework is founded on ING's Values[1], our respect for human rights (Chapter 3) and the need to address the challenges of climate change (Chapter 4).

The Framework has been developed to promote informed decision-making that is consistent with these principles and with our commitment to providing responsible financial services. ING will work with clients to promote environmental and social improvements and aims to avoid entering into business engagements that do not comply with ING's ESR Framework.

Based on the above and depending on the client and product scope (section 1.2), ING applies:

a) **Basic ESR screening**:
   1) ESR list of restricted activities (section 2.1.1);
   2) ESR list of fully restricted companies (section 2.1.2);
   3) ESR Client Assessment (section 2.1.3).

   a.1 and a.2 above are mandatory for Midcorps and SME clients, whereas a.3 - which includes a check against the restricted activities of a.1 and the fully restricted companies of a.2- is mandatory for WB clients.

b) **Full ESR screening:**
   1) Basic ESR screening (section 2.1);
   2) ESR Transaction Assessment (sections 2.2.2 and 2.2.3);
   3) ESR sector policies (Chapters 3-12);
   4) ESR sector evaluation (section 2.2.6) with due attention to specific approaches:
      (i) Supply chain (as explained in the individual ESR Sector chapters);
      (ii) Equator Principles (EP), covering particular project-related transaction types including Project Advisory services (Chapter 13).

1.2 Scope

The scope of the ESR Framework reflects the materiality of the potential ESR impact on society. It is integrated into ING's business processes based on existing client segmentation and the type of business engagement.

The ESR Framework applies to:

a) ING Bank NV and all its majority-owned legal entities and branches. Legal entities where ING Bank NV has a *minority* interest are actively encouraged to *apply the spirit* of ING's ESR Framework.

b) Client segments and products:
   Included are:

[1] **ING's Values** are an integral part of its **Orange Code** and reflect the non-negotiable promises we make to the world: we are (i) **honest**, (ii) **prudent**, and (iii) **responsible.**

1) **Wholesale Banking clients**. A Full ESR or Basic ESR screening applies **depending on the product offering**:

(i) **Basic ESR screening applies** for the following list of products:
- Payment account, credit cards and direct debit;
- Derivative products such as forwards, futures, options and swaps;
- Settlement products;
- Proprietary investments.

(ii) **Full ESR screening** applies to existing or proposed mono- or multi-product offerings pertaining to any of the following:
- **Lending risk**[2] (both funded and non-funded);
- **Money market** products.

For **Cash Management products** and **Strategic Products** (Equity and debt capital market underwriting, agency or advisory services incl. M&A), the following guidelines apply:
- Basic ESR Screening (as an integral part of the KYC process) for the client, issuer, or targeted/ acquired company;
- A subsequent ESR Transaction Assessment is only required if:
  - the **ESR Client Assessment outcome** is **Increased Risk**, or
  - the DCM underwriting pertains to a **project-related bond issue.**

Mid-corporate clients and Small and Medium Sized companies (SMEs) are within the scope of the ESR Framework and subject to the **Basic ESR screening regardless of the products** offered and performed by means of a check against the ESR Restricted Activities and the ESR List of Fully Restricted companies.

Entities outside the scope of (1) or (2) include:
- Financial Institutions (incl. central banks, monetary authorities, investment funds, insurance companies and pension funds);
- Public authorities (including all executive branches of a state, province, municipality etc.);
- Not-for-profit organisations (such as religious organisations, charitable organisations / foundations).
- Organisations owned or controlled by a public authority where the goal of the public service prevails over the objective of making profit;
- Private individuals and self-employed.

However, any of the above remain subject to screening against other non-ESR related restrictive policies and/or regulations.

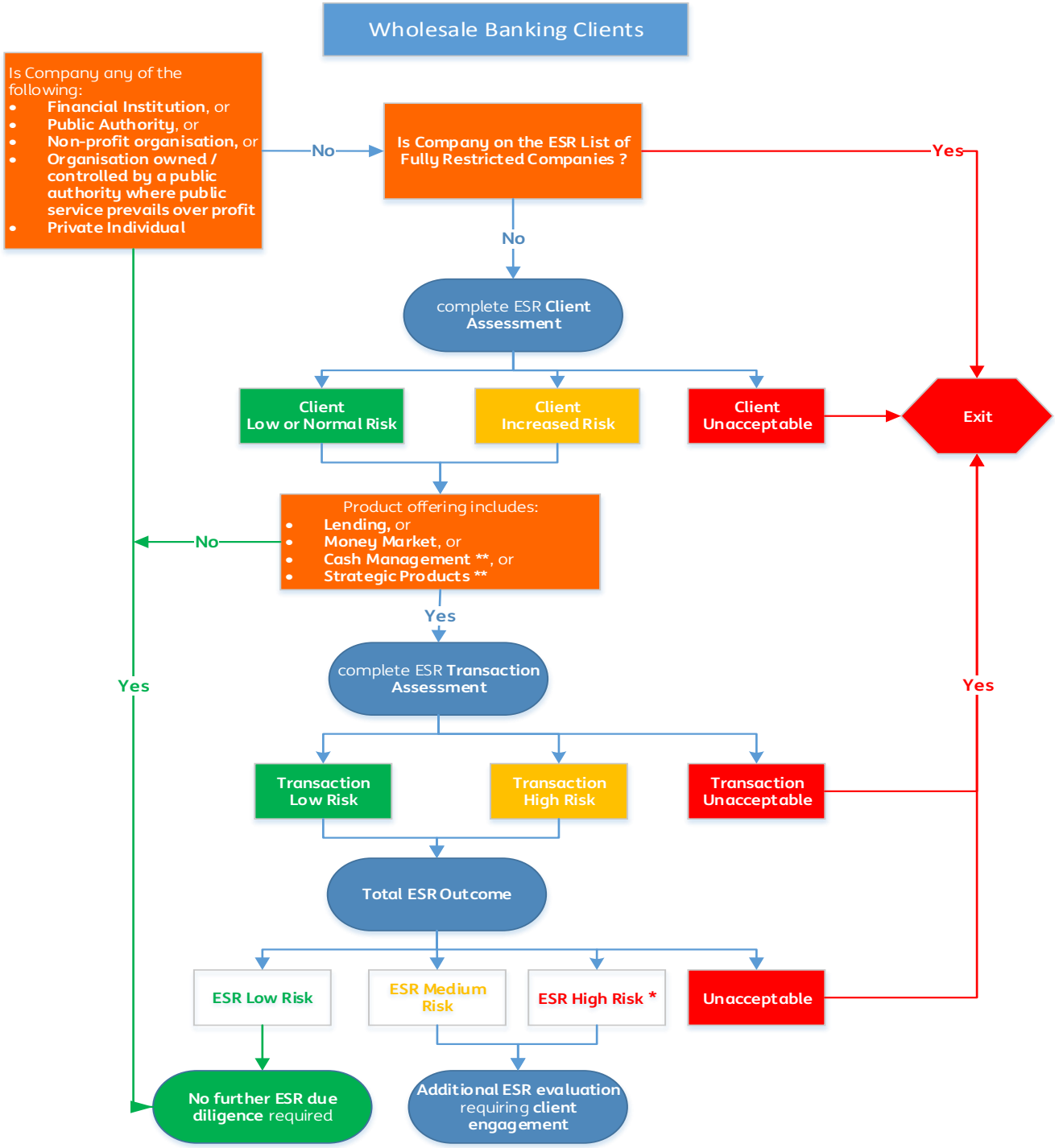
c) **ING Bank procurement**
All ING procurement activities are subject to the Global Procurement Bank's (GPB) Procurement policy. The Procurement policy states that ING only engages with suppliers that have completed the Know Your Supplier/Supplier Qualification (SQ) process, which includes criteria aligned with the ESR Framework. The SQ process prescribes minimum standards regarding screenings, in-depth questions and investigation of the suppliers and outsourcing partners. A risk-based approach is used: the level of detail is dependent on the projected spend and any red flags that are encountered during the process. Screenings and questions provide conformity with the ESR Framework's minimum requirements.

[2] **Lending risk products** comprise of funded products such as term loans (including acquisition finance, bridge loans, syndicated loans and private placements, project finance, corporate loans), working capital facilities, export / import facilities and unfunded products such as guarantees, letters of credit confirmations etc.

Suppliers that fail to meet the minimum ESR requirements receive a ‘not qualified’ status. In some of these cases, risk acceptance, remediation or a waiver may be possible. These will only be awarded once specific process and governance steps have occurred. The GPB/ESR Sustainability Expert has a pivotal role here, but the ultimate decision is made by the chief procurement officer (CPO) and the MBB Member responsible for procurement. ING cannot engage a new supplier and must disengage from an existing supplier if the ‘not qualified’ status remains applicable.

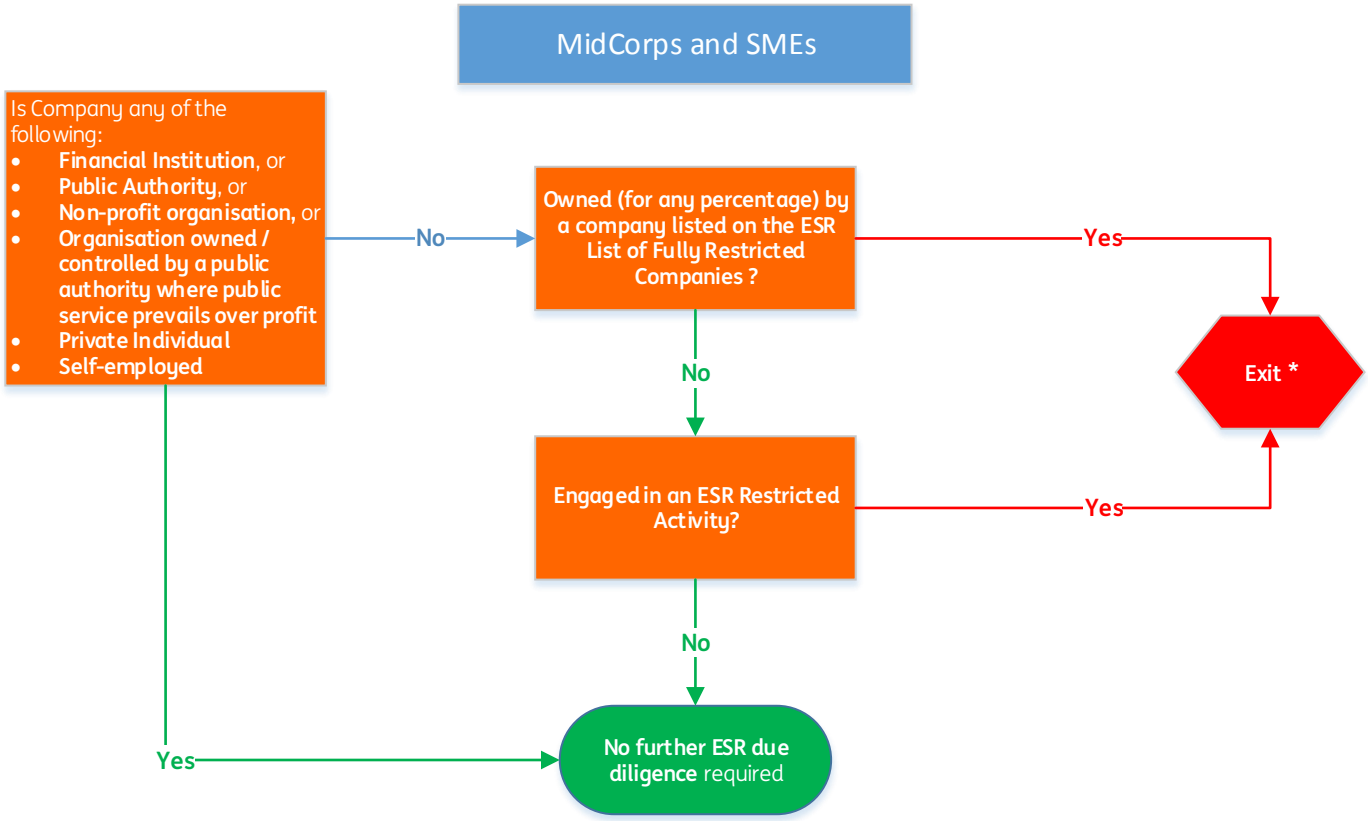
2 ESR screening process

The ESR screening process applies to any in-scope customer and further depends on the product and service to be provided, as explained in section 1.2. This process is visualised below and detailed in subsequent sections.



*) **ESR advice** by WB ESR Team mandatory where outcome is **ESR High Risk.** The ESR advice is a **binding advice** to The Approval Authority for the underlying credit risk. **Only the GCC-TA may overrule** an ESR advice

) Proposals for **Cash Management products and **Strategic Products** (Capital market underwriting and agency or advisory services) require an ESR Transaction Assessment if the **ESR Client Assessment** has resulted in an **Increased Risk** qualification or the **Bond underwriting is project-related.**


MidCorps and SMEs
Is Company any of the following:
• Financial Institution, or
• Public Authority, or
• Non-profit organisation, or
• Organisation owned / controlled by a public authority where public service prevails over profit
• Private Individual
• Self-employed
No
Owned (for any percentage) by a company listed on the ESR List of Fully Restricted Companies ?
Yes
Exit *
No
Engaged in an ESR Restricted Activity?
Yes
No
Yes
No further ESR due diligence required

2.1 Basic ESR screening

The Basic ESR client screening consists of the following filters:

a) ESR list of restricted activities (section 2.1.1).
b) ESR list of fully restricted companies (section 2.1.2).
c) ESR Client Assessment (section 2.1.3).

(a) and (b) above are mandatory for Midcorps and SME clients, whereas (c) - which includes a check against the restricted activities of (a) and the fully restricted companies of (b) - is mandatory for WB clients.

2.1.1 ESR list of restricted activities

The **table on the next pages** lists activities whose controversial nature and impact makes them incompatible with ING's Values and our concern for safeguarding human rights and promoting sustainable development.

Note that on top of the specific restricted business activities listed below, we expect all clients in scope of this policy to comply with our Human Rights (chapter 3) and Climate Change and Environmental (chapter 4) policies, including restrictions described therein.

a) When: This screening is required for any product or business engagement relating to any client in-scope of the ESR Framework (section 1.2). This screening is an intrinsic part of the Know Your Customer (KYC) client on-boarding and review cycle.

b) Outcome:
   1) **Transaction:** no allowance is given **('zero tolerance')** to provide a **product or service that facilitates the restricted activity itself**.

   2) **Client:** many of the ESR Restricted Activities do not cater for any engagement with a company that is involved in such an activity (**'zero tolerance'**).

      However, for **selected ESR Restricted Activities** ING generally applies a maximum **30% threshold acceptance level below which** ING **allows to engage with a client, provided our engagement does not facilitate the restricted activity itself**. I.e. ING is then willing to provide a product or service for the non-controversial activities[3] of that client.
      A **distinction** in **threshold acceptance levels so as to engage directly with non-controversial activities** may apply for an **existing client**[4] as opposed to a **new client**[5]. For some restricted activities where ING has decided to exit the relevant sector (e.g. Tobacco), new clients will be subject to zero tolerance. In other cases, the acceptance level for a new client may be set lower than for an existing client. This distinction is based on the general notion that ING will have less leverage on a new client to agree on a strategy to reduce its restricted activities in the future.

      Further, when preparing a new credit proposal and the threshold is found to be close to breaching this should prompt a direct FO engagement with the client to discuss a strategy to decrease that restricted activity. Results to be reflected in the credit proposal.

[3] **Non-controversial activities:** ING may require a loan covenant or side letter stating that ING funds or services are not directly used to facilitate the restricted activity
[4] **Existing client**: refers to any client on-boarded and having availed of a product or service of ING prior to the implementation date of this version of the ESR Framework (1 July 2019).
[5] **New client:** refers to any client on-boarded after the implementation of this version of the ESR Framework (1 July 2019) or any client on-boarded previously but who does not yet avail of any product or service after that implementation date.

Restricted activities	
Animal welfare and fur*	▪ Use of endangered species or non-human primates[6] for any testing / experimental purposes ▪ Animal trade involving endangered species[7] for commercial purposes ▪ Support of any type of animal fights for entertainment ▪ Operating fur farms ▪ Animal testing for non-medical purposes ▪ Trading or manufacturing fur products
Defence / controversial weapons *	The production, maintenance or trade of any of the following weapons or their key components: ▪ White phosphorous ▪ Anti-personnel landmines ▪ Cluster munitions ▪ Depleted uranium ammunition ▪ Biological and chemical weapons ▪ Nuclear weapons ▪ Nuclear weapons manufacturing companies domiciled in countries that are not party to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) ▪ Nuclear weapons manufacturing companies (i) domiciled in countries that are a party to the NPT *and* (ii) have a clear focus on defence related activities as well
	Manufacturing or sale in Small Arms and Light Weapons[8] for use by any of the following: ▪ Private individuals or private sector in any country, or ▪ Government agencies (e.g. police, military) in an ESR Medium or High Risk country

[6] **Non-Human Primates** are defined in this policy as animals with genetic proximity to human beings and highly developed social skills, such as apes (e.g. gorillas and chimpanzees) and monkeys.

[7] **Endangered species** are defined in this policy as species listed in the appendix I and II of the ☞ Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the ☞ IUCN Red List of Threatened Species

[8] **Small Arms and Light Weapons:** any portable firearm (e.g. handguns, rifles, carbines, sub-machine guns, assault rifles and light machine guns), including crew served machine guns and high-explosive projectile weapons. The definition includes the ammunition for these portable firearms as well as weapons (and its ammunition) that are designed and/or used for recreational purposes.

Restricted activities	
	▪ Prisons and detention centres where the borrower manages the Custodial Services[9] directly or indirectly through an outsourcing contract ▪ Private security companies involved in Custodial Services
Energy*	▪ Companies engaged in thermal coal power production and subsequent distribution to 3rd parties [10] ▪ New thermal coal-fired power plant (or extending the useful life of an existing plant) for general electricity purposes [11] ▪ Arctic offshore[12] oil and gas exploration and production ▪ Mining, exploration and upgrading of oil/tar sands, including pipeline infrastructure dedicated to exclusive use of transporting oil from oil sands (i.e. not blended with other fossil fuels) ▪ Oil/tar sands trading ▪ High-level nuclear waste processing, transportation or storage activities ▪ Mining, exploration and upgrading of shale gas in Europe
	Any of the following in an ESR Medium or High Risk country: ▪ New nuclear power plants, or ▪ Expansions or refurbishments (to extend economic life) of existing nuclear power plants, or ▪ Equipment or services (including dedicated technology) related to any of the above
Fisheries	▪ The use of dynamite or poison related to the catching of marine and fresh water species and shellfish in the wild ▪ Shark finning ▪ Commercial whaling

[9] **Custodial Services:** the daily management of the prison, detention and/or immigration centre, including guarding, securing and protecting the prisoners and detainees, where potential use of coercive actions (either physical or mental) can be linked to the service provided.
Note: any ING engagement in relation to *other operational services*, including but not limited to catering, laundry or mentoring of prisoners and detainees are *exempted from the restriction*.
[10] **Distribution to 3rd parties:** where electricity production is primarily for general electric purposes (i.e. to the power grid).
[11] **Thermal coal-fired power plant:** *excluded from this restriction* are thermal coal-fired power plants dedicated to a specific project, such as an aluminium smelter or a steel mill (these are often small, i.e. < 100MW), where an ESR assessment has evidenced that no cost-efficient alternative is available.
[12] **Arctic Offshore:** the Arctic waters as per the definition of the Polar Code of the International Maritime Organisation

Restricted activities	
Forestry and agri-commodities*	▪ Timber from illegal logging operations ▪ Deforestation and/or burning down tropical rainforest ▪ Removal of primary or High Conservation Value (HCV) forests ▪ New clients engaged in palm oil plantation owning, producing or trading
Genetic Engineering	▪ The development of genetic engineering or genetic modification on humans ▪ The development of genetic engineering or genetic modification on animals for non-medical purposes
Mining*	▪ Mining, trading and processing diamonds where there is no explicit evidence of compliance with the Kimberley Process Certification Scheme ▪ Mountain-top removal ▪ Mining, trading or processing of asbestos ▪ Mining, trading or processing dedicated to uranium or thermal coal, including lignite coal
Protected areas	Transactions located in or significantly impacting: ▪ UNESCO World Heritage Sites ▪ Wetlands registered by the Ramsar Convention ▪ Critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II
Ship breaking (Manufacturing*)	Any activity related to: ▪ The beaching of ships ▪ Cash buyers (i.e. financing a buyer of scrap vessels) ▪ Shipbreaking yards, ships traded or transported for dismantling to these yards and buyers of scrap originating from these yards, unless either (i) the yards are EU approved under the EU Ship Recycling Regulation or (ii) the scrapping process is monitored or certified as operating responsibility by an independent party acceptable to ING
Tobacco[13]	Activities related to growing, trading, processing and manufacturing of tobacco products[14]

* For further details please refer to the ESR sector policy dedicated to the activity.

[13] **Tobacco (i)**: Restriction does not apply to the entire tobacco value chain, specifically parties that are not fully dedicated to tobacco (i.e. retailers that sell tobacco products, or companies engaged in transportation and packaging). Nonetheless extra caution is encouraged in view of raised regulatory and litigation risk as well as ethical considerations.

[14] **Tobacco products (ii):** this includes next generation products such as e-cigarettes and other types of nicotine consumer products such as chewing tobacco.

2.1.2 ESR list of fully restricted companies

ING maintains a list of fully restricted companies. These companies conduct activities in breach of ING's ESR standards. **No banking service or product may be provided to any of these companies (or their subsidiaries) in any circumstances**.

The ESR list of fully restricted companies is reviewed and updated annually by the ESR Team in consultation with the Parent Account Manager (PAM), where relevant. Any additions or removals are subject to GCTP approval.

The ESR list of fully restricted companies is applied as follows:

a) **When:** Screening is performed during KYC client onboarding and review as well as during transaction screening for Trade Finance.

b) **Outcome:** If the company's name appears on the list, no engagement is allowed. The same applies to any subsidiary of that company. If there is no match, ESR screening proceeds to the next stage (section 2.1).

2.1.3 ESR Client Assessment

ESR Client Assessment aims to validate compliance of a (prospective) client's activities with the full ESR Framework. It also measures the client's capacity, transparency and track record in managing environmental and social risks. The outcome of the assessment enables ING to verify its business engagements are in line with its environmental and social risk appetite.

ESR Client Assessment is an integral part of the client on-boarding procedure in the Know Your Client (KYC) process. It is mandatory for WB clients, regardless of the product offering.

a) **What:** This assessment uses questionnaires that evaluate the client's activities in terms of the ESR list of restricted activities, its environmental and social performance, reporting requirements, its track record and the countries where it operates. Additional questions apply for selected sensitive sectors.

b) **When**: The ESR Client Assessment occurs as part of KYC on-boarding of new, in-scope clients (see Section 1.2) and during any subsequent KYC review processes.

c) **Application on client level**: The full ESR Client Assessment is, in principle, applied to the legal ultimate parent company, with the outcome to be assigned to all branches and majority-owned subsidiaries. However, in any of the following circumstances, a separate ESR Client Assessment is required for a given subsidiary:

   1) Where the group's activities are diversified among different sectors and the parent's environmental and social policies are considered too generic or incomplete to adequately address the sector-specific activities of a given subsidiary;
   2) Where ING does not have a relationship with the parent company, in which case the assessment is performed on the controlling shareholder or highest level of subsidiary that deals with ING;
   3) For equity or debt capital market underwriting the ESR Client Assessment is performed on the issuer;
   4) For advisory services such as M&A transactions, the entity / activity to be acquired or sold is subject to an ESR Client Assessment.

5) The project finance company (e.g. SPV/SPC) is not majority-controlled by a single shareholder, in which case the ESR Client Assessment is applied to the project operating company or the companies forming the SPV/SPC.

d) **Outcome**: Based on the answers provided, the full ESR Client Assessment tool classifies the client into any of the following categories, each of which are further clarified in Table 1 below:
   1) Low Risk;
   2) Normal Risk;
   3) Increased Risk;
   4) Unacceptable.

e) **Review and Monitoring**:
   1) ''Low Risk' or 'Normal Risk' clients are re-assessed every five or three years, respectively;
   2) 'Increased Risk' clients are re-assessed annually;
   3) Furthermore, ad hoc revision might be triggered by a major change in the strategy of the company or a material social or environmental incident.

Table 1

ESR Client Assessment – outcomes		
ESR **client** outcome category	Refers to clients that:	**Consequence of ESR client outcome**
Low Risk	▪ actively apply best environmental and social practices not only to their own operations, but also to their partners and suppliers; and/or ▪ have a strong track record with regards to social and environmental impact management; and/or ▪ can independently validate environmental and social excellence under equivalent requirements.	Engagements with these clients are **permitted**, **unless** a subsequently required ESR Transaction Assessment (see section 2.2.3 for requirements) would result in a **Total ESR outcome** that is **Unacceptable**
Normal Risk	▪ actively mitigate environmental and social risks relevant to their business activities; and/or ▪ report on their environmental and social performance (via a sustainability report, website or equivalent) and are generally well regarded by stakeholders; and/or ▪ operate mainly in jurisdictions with stringent environmental and social legislation with a commensurate record of robust law enforcement and are considered to operate at normal risk levels if they comply with all relevant environmental and social laws; and	Engagements with these clients are **permitted**, **unless** a subsequently required ESR Transaction Assessment (see section 2.2.3 for requirements) would result in a **Total ESR outcome** that is **Unacceptable**

ESR Client Assessment – outcomes		
ESR **client** outcome category	Refers to clients that:	**Consequence of ESR client outcome**
	▪ can evidence a good track record (i.e. no/minor environmental fines and penalties and no significant negative press or conflict of interest).	
Increased Risk	▪ have limited management procedures in place to mitigate environmental and social impacts and have limited reporting on their environmental and social performance; and/or ▪ operate in jurisdictions with fragile environmental and social legislation and/or where law enforcement is generally weak.	**Unless** a subsequently required ESR Transaction Assessment (see section 2.2.3 for requirements) would result in a **Total ESR outcome** that is **Unacceptable**, engagements with these clients are ***potentially* permitted.** ***In such cases***: ▪ ING **encourages clients** to seek continuous improvement in environmental, health and safety management, and ▪ additional **environmental and social-related loan covenants may be conditioned** to these clients.
Unacceptable	▪ have no management procedures in place to manage and mitigate environmental and social impacts and do not report on their environmental and social performance; and/or ▪ have a poor track record (including material fines and penalties on social or environmental issues or negative media attention) and exhibit no willingness to improve their environmental and social performance.	Where the Unacceptable outcome originates from a **restricted activity** or a **fully restricted company**, engagement is **not permitted**.

2.1.4 Trade Finance approach towards Restricted Activities and Companies

It is not allowed to provide any trade finance:
a) To any legal entity (or its subsidiary) listed on the ESR List of Fully Restricted Companies, and
b) For any activity listed on the ESR List of Restricted Activities.

Trade finance comprises of many instruments, such as Import/Export LCs (regardless whether ING advises or confirms), guarantees as well as any cash funding. For client restrictions, this applies to both the applicant and the beneficiary of the trade finance instrument.

2.2 Full ESR screening

Full ESR screening consists of:
a) Basic ESR screening (section 2.1); and
b) ESR Transaction Assessment process.

2.2.1 ESR Transaction Assessment

The ESR Transaction Assessment is applied in line with our risk-based approach, in addition to the ESR Client Assessment. Those with a potentially bigger social and environmental footprint require more in-depth analysis. This assessment measures the environmental and social risks associated with a specific transaction and its compliance with the complete ESR Framework, i.e. ESR list of restricted activities as well as all other ESR standards. It is **mandatory** for all WB clients in-scope of the ESR Framework that are offered:

(i) **Lending risk** and/or **money market** products, when the ESR Client Assessment is **Low**, **Medium** or **Increased Risk**, or

(ii) **Cash Management** or **Strategic Products** (Equity and Debt capital market underwriting, agency or advisory services, incl. M&A) - the following guidelines apply:
- Basic ESR Screening (as an integral part of the KYC process) for the client, issuer, or targeted/ acquired company;
- A subsequent ESR Transaction Assessment is only required if:
  - the **ESR Client Assessment outcome** is **Increased Risk**, or
  - the DCM underwriting pertains to a **project-related bond issue.**

a) **What**: The ESR Transaction Assessment is primarily focused on benchmarking the transaction with reference to:

- ESR list of restricted activities;
- Country and Territory Risk List of Corporate Compliance Risk Management (CCRM);
- Impact on critical natural habitats, critical cultural heritage sites and/or indigenous peoples;
- Alleged labour and human rights violations;
- Nature of activities related to the transaction;
- Any negative press coverage due to environmental and socials risk issues that could pose a reputational risk to clients or ING.

Also, if the proposal is within the scope of the Equator Principles (EP, chapter 13), it should be recorded as such in this assessment and a subsequent comprehensive EP evaluation becomes mandatory.

b) **Outcome**: Based on the answers provided, the ESR Transaction Assessment classifies the transaction into one of the following categories:
- Low Risk
- High Risk
- Unacceptable

The combination of the ESR client and transaction assessments results in a **Total ESR outcome**, which is further explained in section 2.2.4 below.

2.2.2 Total ESR outcome

ESR client and transaction assessments for all in-scope business engagements are combined to arrive at a total ESR outcome. This becomes the ESR risk profile of the business engagement and determines the approval and due diligence process thereafter.

The table below illustrates the combinations of client and transaction ESR assessments and their equivalents expressed as the total ESR outcome for a business engagement:

Total ESR Outcome				
ESR Transaction Assessment outcome ⇩	**ESR Client Assessment outcome**			
	Low Risk	Normal Risk	Increased Risk	Unacceptable
Low Risk	**ESR Low Risk**	**ESR Low Risk**	**ESR Medium Risk**	*Unacceptable*
High Risk	**ESR Medium Risk**	**ESR High Risk**	**ESR High Risk**	*Unacceptable*
Unacceptable	*Unacceptable*	*Unacceptable*	*Unacceptable*	*Unacceptable*

For business engagements that result in an ESR Medium Risk or ESR High Risk outcome, a client and transaction based ESR evaluation needs to be undertaken by FO and embedded in the comprehensive credit risk assessment submitted to the relevant Approval Authority. ESR evaluation principles are described in section 2.2.4 below and expanded on in the Equator Principles and the relevant ESR sector policy.

Total ESR outcomes and consequences	
Total ESR outcome	**Consequences of total ESR outcome**
ESR Low Risk	• Engagement will not require any further ESR actions other than regular monitoring as part of credit approval reviews
ESR Medium Risk	• Additional ESR evaluation is required
ESR High Risk	• Additional ESR evaluation is required • The ESR Team has discretionary authority to impose conditions that may include ESR-specific loan covenants in order to achieve ESR policy compliance.
Unacceptable	• Engagement is not allowed • Appeals to "Unacceptable" level will only be considered by the GCC-(TA) on exceptional basis (see ESR waiver requests in section 2.2.5).

2.2.3 Monitoring

Monitoring frequency is contingent on the ESR risk ratings:

a) **ESR Client Assessment**: This follows the KYC review cycle:
   1) Low Risk: every 5 years
   2) Normal Risk: every 3 years
   3) Increased Risk: annually

b) **ESR Transaction Assessment:** A complete ESR assessment must be undertaken if:
   - There are material changes related to the underlying transaction (e.g. increase of exposure etc.), and/or
   - ESR previous advice stipulated such condition, and/or
   - Due to, for example, a material incident.

In any or all of the above cases, the review may include any mitigation measures and specific actions associated with transactions.

2.2.4 ESR sector evaluation (incl. Supply Chain and Equator Principles)

When the **total ESR Outcome** results in either a **Medium** or **High Risk** rating, a **more detailed assessment** is required:

a) The ESR assessment guidance is articulated in the **ESR evaluation approach** for individual ESR sectors (see Chapters 3-12). In the manufacturing, chemicals, energy, forestry and agri-commodities, mining and metals sectors, the supply chain relationship of the company is material and may therefore affect the ESR assessment. Whilst sector-specific guidance is provided in the relevant sector policy, a general guidance is provided below.

   Supply chain: There may be risks related to the sale and production of the client's products, with its suppliers, in the countries from which it sources its products and wherever risks of environmental impact and abuse of human rights (incl. labour standards) are present. It is important to understand how our client mitigates and monitors those risks within its supply chain. These suppliers may include manufacturers, producers and farmers but they may also extend to intermediaries, such as buying agents, logistical providers and traders and processors of global commodities.

   ING encourages its clients (i) to identify and be transparent about how **human rights** and/or **environmental issues** affect **their supply chains** and (ii) to provide evidence of proper monitoring and where relevant, translate these findings into acceptance criteria for partners and suppliers.

   In general, ING encourages its clients to:

   - Disclose their sourcing practices (origin of the products or services, i.e. country and facilities);
   - Demonstrate commitment to taking account of human rights (especially labour and health and safety standards) and environmental matters in their supply chain policy;
   - Consider incorporating the ☞ OECD Guidance for Responsible Supply Chains for their respective industry into their policy framework.

   Where the client has no operational or management control over its supply chain, ING acknowledges that the client's capacity to properly monitor is dependent on the leverage it can exert over peers and/or suppliers, which is usually dependent on the client's relative size. Despite such dependencies, ING follows a risk-based approach concerning supply chains where the focus is on higher risk sectors and higher risk countries. As such, the following client attributes are generally evaluated:
   - Its main supply base and countries of origin;
   - Whether it has a sourcing policy which selects and maintains suppliers based on ESG criteria relevant for the industry;
   - Whether its countries of origin have significant human rights concerns (as recognised by international organisations) or are high-risk / conflict zones;
   - The extent to which the client and its main supply base have an acceptable track record from a social and environmental perspective, as evidenced by accidents/incidents, legal penalties, protests or other allegations and how these have been managed;
   - Internationally recognised certificates.

b) **Equator Principles:** The Equator Principles (EP) are an inherent part of this ESR Framework. They apply to transactions relating to projects with **capital costs exceeding USD 10 mln** and which involve **particular transaction types** that are **directly related to the project development itself (incl. project advisory services)**. Full details on these transaction types as well as the EP evaluation itself are found in Chapter 13.

EP requirements do not apply to corporate loans (such as working capital) where the entire end-use is for general purposes and not explicitly related to the project.

2.2.5 ESR waiver requests

There are three reasons for an ESR waiver request, each with a different Approval Authority:

a) **Exemption from the ESR Framework:** any request for an exception to the application of the ESR Framework may only be granted by the Global Credit & Trading Risk Policy committee (**GCTP**). GCTP has full discretion to escalate the waiver to the MBB for information or a final decision.

   Requirements for a waiver request to the GCTP:
   1) FO memo that provides a comprehensive justification for the waiver request;
   2) Explicit written support from the GCTP member with commercial responsibility for the underlying proposal;
   3) ESR Team advice on the waiver request.

b) **Exemption to the ESR List of Restricted Activities** or the **ESR List of Fully Restricted Companies:** any request for an exception to the ESR lists of Restricted Activities or Fully Restricted Companies, shall only occur on a very exceptional basis and may only be granted by the Global Credit Committee for Transactional Approvals (**GCC-TA**), which committee has full discretion to escalate the waiver to the MBB for information or a final decision.

   Requirements for a waiver request to the GCC-TA:
   1) FO memo that provides a comprehensive justification for the waiver request;
   2) Explicit written support from the GCC-TA member with commercial responsibility for the underlying proposal;
   3) ESR Team advice on the waiver request.

c) **Negative ESR advice:** any proposal with an ESR High Risk outcome requires an advice from the ESR Team that is binding (on its conditions or its negative conclusion). If the relevant Approval Authority responsible for the transaction at hand disagrees with the ESR advice, it is required to escalate to the GCC-TA for a final decision.

   Requirements for a waiver request to GCC-TA:
   1) A memo that provides a comprehensive justification for the waiver request;
   2) Original ESR negative advice;
   3) Explicit written support from either the global head of the relevant WB sector or WB lending product.

Any decision by either GCTP or GCC-TA must be shared with the ESR Team.

2.3 Roles and responsibilities

2.3.1 Front Office, deal principals and other Front Office representatives

The primary responsibility for the application of the ESR Framework lies with Front Office (FO) and deal principals. FO must evidence compliance with the applicable ESR sector policy to the satisfaction of the Approval Authority. FO is responsible for:

- Verifying whether the client and transaction are in-scope of the ESR Framework;
- Completing the ESR screening. Where delegated to KYC (ESR Basic Screening), responsibility extends to supporting the KYC analyst in providing information not publicly available;

- Where the proposal results in an ESR Medium Risk or High Risk classification, applying mandatory evaluation as stipulated by the relevant ESR sector policy and/or Equator Principles;
- Gathering the relevant information from the client and/or external consultant to complete the required ESR evaluation in the credit rationale for ESR Medium Risk and High Risk transactions;
- Providing all documentation that may be requested by the directly responsible CRM and/or ESR Team;
- Actively monitoring clients' actions and timelines to assure compliance with the applicable ESR sector policy as well as the client's strategy to reduce its involvement in an ESR Restricted Activity; and
- Acting on and monitoring client's compliance with conditions imposed by the Approval Authority or ESR Team, where required, and reporting on condition fulfilment as per of the regular client review cycle.

2.3.2 Credit Risk Management

Credit Risk Management (CRM) provides the 2nd Line of Defence control function for FO and as such verifies compliance of a transaction with the ESR Framework to the satisfaction of the Approval Authority.

2.3.3 Money Laundering Reporting Officer

Money Laundering Reporting Officer provides the 2nd Line of Defence in two areas:

- Gatekeeper function – if relevant - and as such verifies whether ESR Team dedicated advice is required;
- Delegated authority to reject any trade finance transaction that does not comply with the ESR List of Restricted Activities.

2.3.4 Environmental and social risk (ESR) Team

The ESR Team must verify compliance with the applicable policy to the satisfaction of Approval Authorities. The ESR Team's main responsibilities are to:

- Provide advice to an Approval Authority on **ESR High Risk** engagements. **Advice** issued by the ESR Team is **binding** and can only be overruled by the GCC-TA;
- Provide **guidance to the Credit Risk Manager** on specific issues or doubts related to ESR Medium Risk engagements;
- Re-consider – when requested – the "Unacceptable" outcome of an ESR Client Assessment in case the cause for that outcome is not due to a negative check against an ESR Restricted Activity or the ESR Fully Restricted Companies list;
- Regularly update the ESR List of Fully Restricted Companies, for final approval by the GCTP;
- Conduct a comprehensive review of the full ESR Framework every 3 years, for final approval by the GCTP;
- Propose amendments to the ESR Framework at any time when so required, for final approval by the GCTP; and
- Provide training, development of tools and support material which enables ESR policy monitoring and compliance.

2.3.5 Global Sustainability department

The Global Sustainability department advises ING management on the bank's sustainability strategy. As such, they analyse sustainability trends in relation to ING's business conduct. In the context of the ESR policy framework, the Global Sustainability department performs the following tasks:

- Analyse and understand civil society's environmental, social and ethical perspective of ING's business conduct;

- Advise the ESR Team and ING senior management on all business conduct that may pose a conflict of interest with civil society;
- Act as the primary point of contact for NGOs and other civil society groups; actively engage with them on environmental, social and ethical topics.
- On request of the MBB or the ESR Team **provide advice on clients and transactions prone to reputation risk. Negative** advices issued by the Global Sustainability department are **binding** and can **only be overruled by either MBB or the GCC-TA**.

2.3.6 WB Sustainable Finance

WB Sustainable Finance is committed to applying the ESR Framework to all its products and client engagements. It has sole responsibility for determining the eligibility criteria for clients receiving Sustainable Finance products and services (e.g. Sustainable Improvement Loans, Green Bonds).

2.3.7 COO/KYC Domain

The Basic ESR screening responsibilities (section 2.1) are embedded in the client on-boarding and review procedures of the Know Your Customer (KYC) process.

a) **Global functions** have the following roles and responsibilities:
   1) **Global ESR subject matter experts:**
      - Act as main contacts with the ESR Team for ESR/KYC issues and KYC Policy changes;
      - Liaise with Business Line Squads for the development or updates of workplace instructions;
      - Provide global ESR training as part of regular KYC training programmes;
      - On execution level, act as escalation point for local ESR subject matter experts.
   2) **ESR Quality Assurance** function undertakes all activities related to Quality Assurance;
   3) **ESR Reporting** provides data that goes into ING's Annual Report;
   4) **ESR Oversight Management** aligns ESR with other aspects of KYC policy (controls tests, new KYC processes etc.).

b) **Local functions** have the following roles and responsibilities:
   1) KYC **analysts, processors and approvers** embed the ESR client assessment as part of their regular roles and responsibilities conforming the KYC screening processes. Their roles in the ESR client assessment are confined to the Basic ESR screening using ING mandatory screening lists;
   2) KYC has a **Local ESR Subject Matter Expert** function that acts as coordinator between the local and global KYC team in the relevant Global Services and Operations (GSO) Centre of Expertise.

2.3.8 Approval Authorities

a) The Global Credit & Trading Risk Policy Committee (GCTP) has the exclusive mandate to decide on any:
   - **Change to the ESR Framework**, including the ESR list of restricted activities and the ESR list of fully restricted companies;
   - **FO request for an exemption to the ESR Framework** supported by an **ESR Team Advice**. Such requests will only be **considered on a very exceptional basis**.

   The GCTP comprises the MBB Members responsible for Risk and all business lines of ING Bank NV.

b) The ING Bank Global Credit Committee for Transactional Approvals (GCC-TA) is:
   - The highest Approval Authority within ING Bank (with the exception of the MBB). It is mandated to approve transactions that entail taking credit, country, legal and ESR risks.
   - **The sole Approval Authority** deciding on **waiver requests related to the negative advice or conditions issued by the ESR Team** on a particular transaction.

2.3.9 ING procurement

a) GBP (Global Bank Procurement)/ESR sustainability expert:
   1) Exclusive advisory role to the Chief Procurement Officer (CPO) (and MBB Member, where required). The CPO alone can decide on a positive advice received from the GBP/ESR sustainability expert. The CPO and MBB Member decide on a negative advice received.
   2) Information role to:
      i. GCTP on any decision made by the CPO alone or the CPO and the MBB Member combined, and subsequently to:
      ii. ESR Team on the underlying case, advice, decision and GCTP minutes.

b) ESR Team provides the GBP/ESR Sustainability Expert with:
   1) Continuous training on the ESR Framework;
   2) Any update of the ESR Framework.

Note: the **ESR Team does not provide any advisory role on procurement issues**; this is within the remit of the GBP/ESR sustainability expert. Only the MBB Member responsible can instruct the ESR Team to become involved.

3 Human rights

Human rights are basic rights that allow individuals the freedom to lead a dignified life, free from fear or want, and free to express independent beliefs. These rights apply equally and universally in all countries.[15]

ING respects and upholds the international human rights described in the Universal Declaration on Human Rights. As a global bank that services clients in many sectors around the world ING can be a driving force for local economies and contribute to positive economic, environmental and social development. At the same time, our business engagements with clients may potentially associate us with adverse human rights impacts.

We recognise our responsibility to respect human rights in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs). We can contribute to the advancement of human rights through appropriate due diligence as well as client and stakeholder engagement locally and globally. We acknowledge the importance of access to processes for potential remedies and encourage clients to establish effective grievance mechanisms. Any stakeholder of ING can submit a complaint (with regards to human rights amongst others) via our website.

This human rights policy sets out our commitments and the standards we expect our clients to abide by.

3.1 Scope

The human rights and climate policies are the two overarching fundamental policies in ING's ESR Framework. These policies are applicable to ING's business engagements with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2). When we refer to human rights in this policy, we refer to the rights as set out in the Universal Declaration on Human Rights.

3.2 Human rights standards

ING respects and upholds the international human rights described in the Universal Declaration on Human Rights. The integration of human rights into our business engagements with clients is further guided by the standards established in:

- The UNGP on Business and Human Rights;
- Children's Rights and Business Principles
- The Eight Fundamental Conventions of the International Labour Organisation (ILO);
- UN Global Compact;
- OECD Guidelines for Multinational Enterprises (chapter on human rights);
- IFC Performance Standards;
- United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)

For large clients, commitment to the UN Guiding Principles on Business and Human Rights and reporting according to their corresponding Reporting Framework are considered best practice.

3.2.1 Our principles

We aim to respect human rights and we expect our clients to do the same, as demonstrated through proper management of, inter alia, labour rights in their own operations (including strict avoidance of any forced labour practice and child labour[16]), the security and livelihood of local communities and supply chain impacts through supplier screening.

[15] Source : http://www.unepfi.org/humanrightstoolkit/what.php
[16] **Child labour** as defined by the International Labour Union

3.2.2 Restricted activities

ING will not directly engage in business activities that are known to have elements of human rights abuses and/or where such violations exist. Where such violations are observed with existing clients, ING will negotiate for remedial action and steps to seek to prevent new violations in the future.[17]

3.2.3 What we expect of our clients

We expect our clients:

- To avoid causing or contributing to human rights abuses;
- To comply with the human rights laws of the countries they operate in and to seek to meet the standards as set out in the Universal Declaration of Human Rights, where local law does not meet these standards;
- To identify and manage human rights risks where they are active in countries or regions associated with these risks (like conflict zones);
- To be transparent about (potential) human rights impacts;
- To assess potential human rights risks in their supply chain and use their leverage to address the most severe human rights with their suppliers and customers (while acknowledging that managing supply chain human rights risks is complex, and the influence compared to clients' own operations is lower);
- To engage with their stakeholders and, commensurate with the size and impacts of their operations, enable access to remedy where necessary.

3.2.4 Sector-specific human rights risks

Different sectors can be associated with different human rights risks. The illustrative, *non-exhaustive* overview below gives insight into which human rights related topics can potentially be at risk in the sectors where ING's clients are active and provides focus on common and sensitive issues.[18] These human rights risks are covered in more detail in the specific ESR sector policies (chapters 5– 12).

a) **Forced labour**
   - Red flags could include: retention of personal documents like passports, excessive housing costs for (foreign) migrant workers, deductions on salaries (debt bondage), lack of transparency of recruitment processes of migrant workers, compulsory overtime.
   - Especially relevant for the following sectors: forestry and agri-commodities, manufacturing, metals and mining.

b) **Child labour**
   - Red flags could include: presence of underage workers, lack of transparency in employee statistics, sectors where families live together on job sites, projects located in poverty regions.
   - Especially relevant for the following sectors: forestry and agri-commodities, manufacturing, infrastructure.

c) **Worker health and safety**
   - Red flags could include: prior and/or recurring safety incidents, fatalities, high number of accidents, inadequate monitoring, lack of structural employee training on health and safety in sectors associated with these risks, no complaints procedure in place for employees.
   - Especially relevant for the following sectors: chemicals, defence, energy, forestry and agri commodities, manufacturing, metals and mining, infrastructure.

[17] This exclusion includes forced and child labour as well as land-related adverse impacts on human rights (which have been defined as salient human rights risks for ING in its role as a lender.
[18] This overview builds on the human rights toolkit established by the UNEP FI

d) **Living wages**
Living wages is a complex subject and a clear standard or agreement on what living wages comprise is not always available, making this a difficult topic to address, even more so when it concerns the supply chain.
- Red flags could include: low price level and high competition in the industry, low average wages in the industry, lack of compensation for overtime.
- Especially relevant for the following sectors: forestry and agri-commodities, manufacturing.

e) **Indigenous peoples' rights**
- Red flags could include: location of the project on the customary or treaty lands of Indigenous peoples; lack of social dialogue in company practice, lack of a corporate community consent policy; lack of third-party (or mediation) involvement in community/company dialogues; projects where national laws do not protect the rights of Indigenous peoples; projects taking place on territories with unresolved land claims.
- Especially relevant for the following sectors: energy, forestry and agri-commodities, metals and mining, infrastructure.

f) **(Involuntary) resettlement**
- Red flags could include: projects or project expansions in green-field locations on land where people live and work; low percentage of local population providing input on a potential project and/or expressed consent.
- Especially relevant for the following sectors: energy, forestry and agri-commodities, metals and mining, infrastructure.

g) **Community health and safety**
- Red flags could include: new projects in green-field locations on land where people live and work, projects associated with big environmental impact on or around the project site.
- Relevant for all sectors in the ESR Framework.

h) **Supply chain human rights risks**
- Red flags could include: lack of transparency on suppliers, activities in sectors associated with labour-intensive supply chains, lack of sourcing policies, lack of data/tracking on items procured.
- Especially relevant for the following sectors: energy, forestry and agri-commodities, manufacturing, metals and mining.

i) **Security-related human rights risks**
- Red flags could include: prior security incidents, (private) security forces involved in projects.
- Especially relevant for the following sectors: defence, energy, forestry and agri-commodities, metals and mining.

3.3 Evaluation approach

Sector, location and a client's track record are important foundations of our evaluation of the environmental and social risk associated with our clients' activities. The overarching process of our environmental and social risk assessment is set out in chapter 2 of this Framework. For corporate clients, it entails both a client and a transaction assessment with specific attention to human rights policies and track record. A more detailed description of how our policies are applied in specific sectors can be found in the evaluation approach section in the relevant chapter.

3.4 Other ING human rights commitments and activities

The ESR human rights policy applies to our business engagements with clients. The commitments and standards in the ESR policy correspond with ING's overarching human rights commitments and approach. They also cover ING as an employer, a procurer of goods and services, and as a corporate citizen.

On top of the evaluation of clients and transactions we undertake as part of our environmental and social risk management, ING also takes a more proactive role in engaging with clients and other stakeholders on the topic of human rights. As a committed UN Global Compact signatory, ING supports the Sustainable Development Goals (SDGs). We aim to maximise our contribution to the SDGs through our financing choices. We offer sustainable products (including products focused on making a positive social impact); we participate in local and global client, stakeholder and sector initiatives; and we aim to optimise our leverage to the fullest through engagement. ING's commitments and actions to further human rights are set out in more detail in the ING Human Rights report on ing.com.

3.5 Glossary

- **Salient human rights issues**: A company's salient human rights issues are those human rights that stand out because they are at risk of the *most severe negative impact* through the company's activities or business relationships.
  This concept of salience is derived from the perspective of **risk to people**, not the business, as the starting point, while recognizing that where risks to people's human rights are greatest, there is strong convergence with risk to the business.

  The emphasis of salience lies on those impacts that are:
  - **Most severe:** based on how grave and how widespread the impact would be and how hard it would be to put right the resulting harm.
  - **Potential:** meaning those impacts that have some likelihood of occurring in the future, recognizing that these are often, though not limited to, those impacts that have occurred in the past;
  - **Negative:** placing the focus on the avoidance of harm to human rights rather than unrelated initiatives to support or promote human rights;
  - **Impacts on human rights:** placing the focus on risk to people, rather than on risk to the business.

  Salience therefore focuses the company's resources on finding **information that is necessary for its own ability to manage risks to human rights**, and related risks to the business. In this way, it helps companies report on the human rights information that shareholders, investors, governments, customers, consumers, media, civil society organizations and directly affected people want to see.

4 Climate change and environmental policy

With millions of customers in more than 40 countries, our business activities have a significant influence on communities and the environment around the world. We recognise economic activities have an impact on the environment and see limiting the disruptive effects of climate change as one of the biggest global challenges of our time. We support the orderly and just transition to a low-carbon economy and we encourage our clients to take a responsible and prudent approach towards environmental impact management. We are committed to helping our clients limit their impact on climate change, biodiversity, and water stress.

4.1 Scope

Our climate change and environmental policy is one of our two fundamental cross-sector policies, along with our human rights policy. These policies are applicable to ING's business engagements with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2). The policy covers climate change, biodiversity and water-related risks.

4.2 Climate change and environmental standards

ING is a Global Systemically Important Bank (G-SIB) that finances activities across many sectors worldwide. With a diverse portfolio in, among others, energy, infrastructure, metals and mining, and forestry and agricultural commodities, ING's clients are active in sectors that, on the one hand, are key to modern-day society and living standards, but are also associated with potential impacts on the environment, including greenhouse gas emissions, biodiversity and water scarcity. Our position as a G-SIB comes with a responsibility to limit potential negative impact and be a driver for positive change.

Our commitment to minimise negative impact is set out in our principles and standards below.

4.2.1 ING's principles

- Natural resources are finite and need to be used as efficiently as possible.
- The transition to a low-carbon economy is essential and an orderly and just transition can bring substantial benefits to the planet and its people, including business and economic growth opportunities.
- Limiting the increase in global temperatures (in line with the Paris agreement) is necessary from an environmental and a social perspective, as climate change can pose a threat to human rights (housing, livelihood, health etc.).
- Helping clients limit risk, including climate-related risk, will result in lower financial risk for them and for ING's portfolio.
- Global, regional and national policy and legislation on climate change and environmental impact are rapidly evolving. The pace of these changes can lead to (credit) risks for clients and ING's portfolio. We believe that clients with strong environmental policies and management systems are better equipped for the future and represent lower risk investments.
- Helping clients avoid negative and irreversible impact on biodiversity will reduce risks for the client and for ING.
- We recognise that many of the key industries that provide products and services considered necessary in modern life have a material impact on climate change and the environment. Reconciling the needs of customers and clients around the world with the climate change and environmental impacts of our financing is a continuous balancing act.

4.2.2 Restricted activities

- We will not finance projects or clients that knowingly and continuously break environmental laws;
- As part of our commitment to combating climate change, we will not finance any new coal-fired power plants and oil sands projects or oil sand dedicated infrastructure. Details of this exclusion can be found in the energy sector policy (chapter 8);

- We will not finance any operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention, critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

4.2.3 What we expect of our clients

We respect and care for the environment and we expect all our clients to maintain a similar attitude.

4.2.3.1 General standards

We expect our clients:

- To be aware of their environmental impact and act accordingly to reduce or eliminate it;
- To comply with global and local environmental protection laws and be aware of, and where possible, implement industry best practices.

4.2.3.2 Climate change standards

We expect our clients in sectors that materially impact, or are materially impacted by climate change:

- To have an environmental policy and environmental management system in place;
- To be transparent about their direct and indirect environmental impact (including emissions), targets and performance against targets, commensurate with the size and impacts of their operations.

We encourage those clients with a larger environmental footprint to be transparent about the impact of their core products and services, their governance, strategy, risk management and targets. Examples of best practice are: the Task Force on Climate-related Financials Disclosures (TFCD) reporting and CBP (Carbon Disclosure Project).

4.2.3.3 Protected areas and biodiversity standards

- We expect our clients with a potential material impact on protected areas and biodiversity to know and properly manage their impact on biodiversity. Protecting and preserving biodiversity should be integrated in their environmental policy and environmental management systems (incl. pollution prevention);
- Where material accidents like spills and air-pollution occur that negatively impact biodiversity, we expect our clients to report these transparently and explain their remedial actions to key stakeholders and the general public, commensurate with the size and impacts of their operations.

4.2.3.4 Water standards

We expect our clients associated with high water use, located in water-stressed areas or areas prone to flooding, or whose operations may involve water polluting activities:

- To recognise and address water stress in their policies, to monitor and measure relevant water metrics and aim to take actions and participate in initiatives to address water challenges, commensurate with the size and impacts of their operations. Use of the Water Risk Filter (developed by the World Wildlife Fund) is considered a useful tool;
- To understand and assess the link between potential impacts from water stress on local communities and human rights, and take steps to avoid or minimise potential impacts.

4.3 Evaluation approach

Sector, location and a client's track record are important foundations of our evaluation of the environmental and social risk associated with our clients' activities. The overarching process of environmental and social risk assessment can be found in chapter 2 of this Framework. A more detailed description of how our policies are applied in specific sectors can be found in the evaluation approach section in the relevant chapter.

4.4 Other ING climate and environmental commitments and activities

The ESR climate change and environmental policy applies to our business engagements with clients. The commitments and standards in the ESR policy correspond with ING's overarching climate commitments and environmental approach. They also cover ING as an employer, a procurer of goods and services and as a corporate citizen.

On top of the evaluation of clients and transactions we undertake as part of our environmental and social risk management, ING also takes a proactive role in offering sustainable products and services, and participating in local and global stakeholder and sector initiatives. ING's commitments and actions to combat climate change are set out in more detail **here**.

4.5 Glossary

- **Climate change**: refers to large-scale changes in weather patterns over a long period. In particular, the rise in the average global temperature apparent from the mid to late 20th century onwards that is attributed to increased levels of greenhouse gases in the atmosphere, primarily carbon dioxide produced by the use of fossil fuels (also known as global warming). In the context of this policy, the focus is on the potential negative impacts of climate change on an organisation, and on the impact of that organisation's activities on the environment.
- **Climate change risk:** includes physical and transition risks:
  - *Physical risks* arise from the physical effects of climate change on businesses' operations, workforce, markets, infrastructure, raw materials and assets. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g. cyclones, droughts, floods, and fires). They can also relate to longer term (i.e. chronic) shifts in precipitation and temperature and increased variability in weather patterns (e.g. sea level rise).
  - *Transition risks* come from the policy, legal, technology and market changes occurring in the shift to a lower-carbon global economy. Transition risk also incorporates 'stranded asset risk' – write-downs of carbon-intensive assets that could quickly become unusable or reduced in value. Transition risks include policy constraints on emissions, imposition of carbon tax, water restrictions, land-use restrictions or incentives, market demand and supply shifts, and reputational considerations.

5 Animal Welfare

5.1 Scope

The animal welfare policy applies to ING's business engagements with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2) that affect or potentially affect animal welfare. This includes business engagements related to:

- Farming activities (and transport), including: beef cattle ranching, cattle feedlots, dairy cattle farming; hens, broilers and poultry hatcheries management; pig, sheep, rabbit and turkey farming, slaughterhouses;
- Aquaculture operations and (shell)fish hatcheries;
- Trade or use of (parts of) endangered animals;
- Animals used for human entertainment (e.g. zoos, circuses, household pet industry);
- Animals used in laboratory settings to advance human health.

5.1.1 ING's activities

ING is active in the global food industry. We provide financing to the entire food chain, ranging from producers and traders to transport companies and those who handle and process food products. Our portfolio includes dairy, cattle farming and feeding, hog production, egg layers, poultry production and fishery amongst others.

5.2 Sector risks and best practices

5.2.1 Sector risks

Companies operating in the animal farming sector and other animal-involved sectors face, amongst others, the challenges of meeting increasing global food demand and the desire to improve human health and medicine, while minimising negative impacts on communities, the environment and animals. While animal health is considered a prerequisite in the animal farming sector, the concept of animal welfare continues to be developed and varies across the world. This policy sets out ING's stance on animal welfare.

Addressing these challenges effectively requires that environmental, social and ethical impacts be carefully considered. The development of animal farming activities can potentially create environmental and social risks to animal and human health. Potential risks in animal farming activities or aquaculture operations include*:*

- **Animal distress**: as a result of substandard living conditions, confinement, transport, health care or slaughtering practices;
- **Human health hazards**: mismanagement of farming may incubate disease or transfer infectious agents to humans, antibiotic resistance (e.g. MRSA), and foodborne illness;
- **Environmental pollution and health impact**: including air pollution, waste-water contamination (e.g. due to improper manure management) and water usage in water-scarce areas;
- **Mistreatment**: especially relating to animals kept in zoos or used in shows like circuses, rodeos, horse shows, dog shows, dolphinariums and aquatic parks, and animals used in medical or veterinary research.

5.2.2 Sector best practices

ING encourages its clients to seek continuous improvement, certification (where applicable) and best practices in environmental, health and safety and animal welfare management. These best practices include the principles expressed in:

- The Terrestrial Animal Health code of the World Organisation for Animal Health, including recommendations related to trade and logistics of animals (e.g. health requirements, veterinary certificates and vaccines, quarantine stations);
- The International Finance Corporation (IFC) Good Practice Note: Improving Animal Welfare in Livestock Operations.
- ISO 14000 and 14001 environmental management standards and OHSAS 18001, the occupational health and safety management system.

We recognise that standards might differ between regions, and that there might be local certification that is comparable to those mentioned above. Certificates and standards are considered to be strong by ING if they are:

- Internationally or regionally recognised;
- Independently reviewed; and
- Preferably, verified by a multi-stakeholder body.

5.3 Animal welfare standards

5.3.1 Restricted activities

- Trades involving endangered species for commercial purposes. Endangered species are listed in (i) the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and (ii) the IUCN Red list of Threatened Species;
- Use of endangered species or non-human primates for all testing/experimental purposes. Non-human primates are defined as animals with genetic proximity to human beings and highly developed social skills, such as apes (e.g. gorillas and chimpanzees) and monkeys.
- Animal fights for entertainment;
- Fur farms, manufacturing or trade in fur products;
- Use of dynamite or poison to catch marine and freshwater species and shellfish in the wild;
- Shark finning or commercial whaling;
- Animal testing for non-medical purposes. Cosmetic purposes relate to activities that aim for substances for beauty or hygienic purposes;
- Genetic engineering or genetic modification on animals for non-medical purposes. Selective breeding[19] is not considered a form of genetic engineering.
- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

5.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

Business engagements with clients affecting animal welfare are subject to this policy. We expect our clients to comply with ING's ESR human rights and climate change and environmental policies and to be fully compliant with relevant local animal welfare legislation and regulations where the Five Animal Freedoms (see below) are incorporated. Where such local legislation and regulations do not fully incorporate the Five Animal Freedoms, we encourage them to comply with the following standards:

a) Conduct animal management in line with the "Five Animal Freedoms":

[19] **Selective breeding:** pertains to selective animal breeding activities where parents with particular characteristics are selected to breed together and produce offspring with improved characteristics.

1) *Freedom from hunger and thirst*, by providing ready access to fresh water and a diet to maintain full health and vigour;
2) *Freedom from discomfort*, by providing an appropriate environment, including shelter and a comfortable resting area;
3) *Freedom from pain, injury, and disease*, by prevention or rapid diagnosis and treatment;
4) *Freedom to express normal behaviour*, by providing sufficient space, proper facilities and company of the animal's own kind;
5) *Freedom from fear and distress*, by ensuring conditions and treatment that avoid mental suffering.

b) Where animals are used in medical research laboratories for the advancement of human health, the principles of the *3Rs* - Replacement, Reduction and Refinement, providing a framework for human research on animals - should be applied.
   1) *Replacement* refers to methods of utilising cells, tissues or organs of animals (relative replacement and those that do not require the use of animals to achieve the scientific aims (absolute replacement);
   2) *Reduction* refers to methods that enable researchers to obtain comparable levels of information from fewer animals or obtain more information from the same number of animals;
   3) *Refinement* refers to methods that prevent, alleviate or minimise pain, suffering, distress or lasting harm and/or enhance welfare for the animals. Refinement includes the appropriate selection of relevant species with less structural and functional complexity in their nervous systems and a lesser apparent capacity for experiences that derive from this complexity.
c) Housing/husbandry/farming conditions: Housing systems must support animals' natural behaviour and needs with respect to movement, rest and social habits. The housing system must protect the animals from injury and distress. All housed animals must have access to sufficient feed, water, air and darkness/light. Temperature has to be controlled at all times;
d) Transportation: Animals shall be transported in an efficient manner that minimises distress. They shall not be transported over excessively long distances. During transport, animals must be fed and watered with appropriate frequency;
e) Stewardship: Entities owning or keeping animals must safeguard their welfare by preventing any unnecessary pain, suffering or injury;
f) Health and disease: Animals' health must be assessed by a licensed veterinarian or professional with the requisite skills and authority;
g) Hormones and antibiotics: Use of hormones and antibiotics on animals must comply with all applicable national laws and specific requirements. Antibiotics meant for human purposes are not to be used for animals in food production;
h) Genetics and breed selection: Selection of breeds has to take into account animal welfare principles as well as production objectives;
i) Animal welfare when used in the laboratory for human health purposes: Animal experiments must only take place if there is no appropriate alternative method available that avoids the use of animals. Animals involved must be those with the lowest degree of neurophysiological sensitivity and consciousness consistent with experimental objectives;
j) Slaughtering: Animals must be handled and slaughtered in the least distressing and most pain-free manner possible.

5.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
    1) For general financing, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
    2) For asset-based financing, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required;
c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy;
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
    1) It involves a project within the scope of the Equator Principles (chapter 13), or
    2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the advice given by ESR Team/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

5.5 Glossary

- **Animal welfare**: the wellbeing of animals as can be influenced and achieved through the standards set out in this policy.

6 Chemicals

6.1 Scope

This policy applies to ING's business engagements in the chemicals sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2). Chemical-related activities within the scope of the policy are:

- Industries producing, supplying and trading synthetic fibres, agrochemicals, plastics, paints and detergents;
- Direct use of fertilisers, paint, soap, plastics and equivalent substances;
- Indirect use of fertilisers, paint, soap, plastics and equivalent substances under further industrial processing (e.g. pharmaceuticals, oil and gas, printing).

6.2 Sector risks and best practices

6.2.1 Sector risks

Chemicals have become a primary necessity in the textile, agriculture, health, infrastructure and technology industries and are necessary for food security. The sector is a large global job creator that contributes to infrastructural development and supports energy efficiency industries such as water conservation and solar power.

Clients in the chemicals sector face the challenge of meeting the increasing needs of a growing population while raising human welfare and minimising the cost to the environment. To meet this challenge, the environmental and social impacts associated with the chemicals sector must be carefully managed. Specific risks in the chemicals sector include:

Human rights and community risks:

- **Worker health and safety**: exposure of workers to hazardous materials and substances;
- **Community health and safety**: exposure of local communities to toxic chemicals in water, food, air, and soil which may cause or exacerbate many serious human health problems. Rising food prices may be associated with the use of bio-based, raw materials in the production of paints or other chemicals or the use of specialised agrochemicals for food production.

Environmental risks:

- **Climate**: substantial contributor to air emissions (NOx) GHG emissions as well as ground contamination;
- **Biodiversity**: loss of biodiversity/endangered species and ecosystem services, soil erosion, land degradation, and natural stock depletion;
- **Water**: contamination (e.g. due to the use of pesticides, fertilisers and fuels, lubricants and other chemicals) and water use in water-scarce areas.

ING's policy describes sector best practices; the standards and processes that will assist us in addressing these risks in a consistent manner with our clients. Agrochemicals specifically are considered inherently high risk. Deeper evaluation is warranted focusing on track record, transparency, stakeholder engagement, human rights and business practices of companies operating in this area.

6.2.2 Sector best practices

In order to manage the risks identified, ING takes into consideration environmental and social industry standards and best practice guidance developed for industry sectors. ING encourages clients in the chemicals sector to seek continuous improvement in environmental, health and safety management and to move towards best practices, which include:

- Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) from the European Parliament and the European Council on chemicals and their safe use;
- The Montreal Protocol on Substances that Deplete the Ozone layer;
- International Programme on Chemical Safety;
- The Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade;
- Worldbank/IFC EHS Guidelines for chemicals (ranging from nitrogenous fertiliser to pesticides)

6.3 ING's standards

6.3.1 Restricted activities

- Asbestos fibres;
- Any product dedicated to the production of chemical and biological weapons;
- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

6.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients that are active in the chemicals sector:

- To comply with ING's ESR human rights and climate change and environmental policies;
- To comply with (i) Stockholm[20] and Rotterdam[21] Conventions pertaining to the prohibition of manufacturing, processing or trading of specific chemicals listed and (ii) international phase-out or bans of specific chemicals.
- Have policies and environmental and social management systems in place addressing pollution, emissions control (including a prevention control measure plan), contamination of water resources, impacts on biodiversity, community health and safety for handling, transportation and storage of chemicals;
- To follow a diligent occupational health and safety process during construction, decommissioning and operations;
- To provide sufficient training and/or information to their off-takers to verify safe use of the chemical products in their daily processes;
- To have a stakeholder engagement plan which addresses concerns/grievances of key stakeholders in an acceptable way (key stakeholders may be local communities, workers, indigenous people);
- To comply with IFC Performance Standards and EHS Guidelines (including chemical hazards and transport of hazardous materials among others) when financing projects in scope of the Equator Principles (Chapter 13).

6.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

[20] **Stockholm Convention:** international agreement on persistent organic pollutants (POP) that form a significant threat to human health
[21] **Rotterdam Convention, Annex III**: international agreement on hazardous pesticides and industrial chemicals

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
    1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
    2) For **asset-based financing**, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required;
c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy.
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
    1) It involves a project within the scope of the Equator Principles (chapter 13), or
    2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to promote minimum standards to achieve compliance with this policy. It summarises the relevant information for points (a-e) above and an overview of the advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

6.4.1 Client's supply chains and commodity traders

Supply chain risks might be included in further evaluation, particularly when trade finance products are provided. This will specifically focus on whether the company discloses, analyses and mitigates its supply chain ES risks and, where relevant, translates these into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the leverage it has over its suppliers. This may be contingent on the client's relative size. Despite such dependencies, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- A sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);

- Availability of, or the commitment to obtain within an acceptable timeframe, internationally recognised certificates, where applicable.

6.5 Glossary

- A **chemical substance,** also known as a pure substance, is a form of matter that has constant chemical composition and characteristic properties. It cannot be separated into components by physical separation methods, i.e., without breaking chemical bonds. Chemical substances can be chemical elements, chemical compounds, ions or alloys.
- An **agrochemical** or agrichemical, a contraction of agricultural chemical, is a chemical product used in agriculture. In most cases, agrichemical refers to pesticides, including insecticides, herbicides, fungicides and nematicides.
- **Plastic** is material consisting of any of a wide range of synthetic or semi-synthetic organic compounds that are malleable and so can be moulded into solid objects.
- A **fertiliser** is any material of natural or synthetic origin (other than liming materials) that is applied to soils or to plant tissues to supply one or more plant nutrients essential to the growth of plants.
- A **detergent** is a surfactant or a mixture of surfactants with cleaning properties in dilute solutions.

7 Defence

7.1 Scope

This policy applies to ING's business engagements in the defence sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2). This policy also contains specific exclusion criteria for ING's proprietary assets and customer investments in ING's asset management and financial markets related products.

7.1.1 ING's activities

ING has no inherent objections to the defence industry. In general, it is acknowledged that sovereign countries - within the boundaries of (inter)national law, regulations and conventions – have the right to defend themselves, to participate in (joint) military or peace-keeping missions, and to have military and homeland security forces in place, which are equipped and serviced by the defence industry. Nonetheless, defence remains a highly sensitive sector and ING exercises restraint when engaging in the defence sector, as explained elsewhere in this policy.

7.2 Sector risks

The defence industry is a global and highly diversified industry. Several jurisdictions prohibit involvement in certain controversial weapons and restrict the trade of arms. In addition to legal prohibitions, ING considers specific companies, sorts of weaponry and activities in breach of ING's Values and business ethics. Therefore, ING defined controversial activities within the sector and adopted standards to restrict its engagement in those activities. The weapons under consideration are controversial because of the likelihood of civilians being injured as these weaponry systems are prone to indiscriminate effects and/or risk causing destruction over a wide area. In addition, transactions in this sector run the risk that defence-related goods are used for illegal purposes, including the support of non-governmental armed groups without UN, EU, or US approval.

Governments and companies are increasingly using private security companies in a variety of activities and locations around the world. This industry is sensitive to human rights violations, requiring careful consideration when engaging with private security companies.

7.3 ING's standards

Due to the nature of the different sorts of weaponry, ING distinguishes between Category A and Category B controversial weapons:

- **Controversial weapons Category A**
  ING has labelled **cluster weapons**, together with **anti-personnel landmines**, **biological** and **chemical weapons**, **white phosphorus** and weapons containing **depleted uranium** as controversial weapons Category A.

- **Controversial weapons Category B**
  ING has designated **nuclear weapons** as controversial weapons Category B. Although nuclear weapons also have an indiscriminate effect with a high likelihood of civilians being injured, they have different characteristics to e.g. cluster weapons and landmines. Nuclear weapons are not commonly used in armed conflicts, but more importantly ownership, production, trade, proliferation and use of (components for) nuclear weapons are heavily regulated, monitored and, if necessary, sanctioned by both individual governments and the international community. Many high-tech companies are therefore involved in various ways in the nuclear armaments programmes of their respective governments.

7.3.1 Restricted activities

Business engagements with restricted activities are not allowed. The restrictions are categorised according to the client and its activity, the off-taker or the context in which defence-related goods are used:

- ING will not finance Category A or Category B controversial weapons.
- ING will not finance a company or consortium directly involved in either (i) controversial weapons category A or (ii) in both controversial weapons Category A and Category B.
- ING will not finance the manufacturing or sale of Small Arms and Light Weapons (SALW) to the private sector (or private individuals).
- ING will not finance the manufacturing or sale of SALW to government agencies (e.g. policy, military) of ESR Medium or High Risk countries.
- ING will not finance companies with significant revenues derived from the manufacturing or sale of SALW to the private sector and/or to government agencies of ESR Medium or High Risk countries.
- ING will not finance prisons and detention centres where the borrower manages the Custodial Services[22] directly or indirectly through an outsourcing contract.
- ING will not finance private securities companies with significant revenues derived from Custodial Services.
- ING will not finance transactions in the defence sector in relation to countries in which there is a clear risk that international (humanitarian) law will be violated.

7.3.2 Controversial weapons Category A

It is ING policy,

a) To avoid providing financial services to companies that are Directly Involved in controversial weapons Category A or their key components.
b) To avoid investing its proprietary assets in such companies. Wherever legally possible, none of ING's own funds, investment products or services will contain or relate to such companies.

Further, ING will to the best of its ability and where legally possible, verify that:

c) customer funds are not placed in such companies through active ING fund management.
d) customer funds are not placed in such companies through passively managed ING index-related products if the cumulative weighting of these investments is 5% or more of the related index.
e) customer funds are not placed in investment funds managed by third parties if the fund consists of 5% or more of such companies.
f) customer funds are not placed in index-related products managed by third parties if the cumulative weighting of investments in such companies is 5% or more of the related index.

7.3.3 Controversial weapons Category B

It is ING policy,

a) To avoid providing financial services to:
    1) companies with a clear focus on defence or weapons-related revenues and are directly involved in controversial weapons Category B or their key components, or
    2) companies directly involved in controversial weapons Category B or their key components, when those companies are domiciled in countries that are not a party to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT).

b) To avoid investing its proprietary assets in such companies. Wherever legally possible and independently enforceable none of ING's own funds, investment products or services will contain or relate to such companies.

Further, ING will to the best of its ability and where legally possible, verify that:

c) customer funds are not placed in such companies through active ING fund management.

[22] Note: any engagement in relation to other operational services, including but not limited to catering, laundry or mentoring of prisoners and detainees, are exempted from this restriction.

d) customer funds are not placed in such companies through passively ING managed index-related products if the cumulative weighting of these investments is 5% or more of the related index.

The foregoing restrictions do not extend to funds managed by third-party asset managers.

7.3.4 Private Security Companies

It is ING policy to provide financial services to private security companies only if these companies:

a) adhere to the International Code of Conduct for Private Security Service Providers' Association (ICoCA), or equivalent;
b) apply international guidelines regarding the local use of force, including the UN Principles on the Use of Force and Firearms by Law Enforcement Officials and the UN Code of Conduct for Law Enforcement Officials.

7.3.5 Controversial supply of arms and military support

It is ING policy,

a) to avoid providing financial services to companies or consortia in the Defence Sector that demonstrably have activities in making available weapons, military equipment, personnel, services, training, knowledge, technology, dual-purpose goods or armed support to:
   1) weapon-embargoed countries; or
   2) paramilitaries, mercenaries and other non-governmental armed groups without UN, US or EU approval.

b) to avoid investing proprietary assets in such companies. ING will, wherever legally possible, verify none of its own funds, investment products or services contain or relate to such companies.

c) to verify that engagements with companies or consortia in the defence sector will not make available weapons, military equipment, personnel, services, training, knowledge, technology, dual-purpose goods or armed support to countries where there is a clear risk that the weapons etc. may be used for internal repression, serious violations of international humanitarian law, to provoke or prolong armed conflicts or aggravate existing tensions, or for any other use which cannot reasonably be considered to have a normal and legitimate national security and defence purpose.

Not in scope of this article are companies that have such activities in relation to humanitarian missions or to (peace keeping) military missions that have been commissioned by the international community.

7.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. For companies involved in the Defence Industry the evaluation approach is based on:

- The company's activities, including the percentage of defence or weapons-related consolidated gross revenues, potential offtaker involved in a transaction, and the context in which a transaction takes place.
- For private security companies a verification of the applicable standards, the company's track record, and the percentage of Custodial Services related revenues.
- Business opportunity involving a country classified as an ESR High Risk country should be put to the attention of the ESR Team at the earliest possible moment, to obtain mandatory advice.

7.5 Glossary

- **Custodial Services** involve the daily management of the prison, detainee and/or immigration centre, including guarding, securing and protecting the prisoners and detainees, where potential use of coercive actions (either physical or mental) can be linked to the service provided.

- **Defence Sector** encompasses producing, designing, developing, testing, researching, modifying, upgrading, servicing, maintaining, sustaining, stockpiling, supporting and trading products in relation to the military, police and/or private security forces as well as the provision of training, brokering, shipping and advisory services to the same.

- **Controversial weapons** are:
  - **Category A** is defined as: cluster weapons, anti-personnel landmines, biological and chemical weapons, white phosphorus and munitions containing depleted uranium.
  - **Category B** is defined as nuclear weapons.

- **Small Arms and Light Weapons** any portable firearm (e.g. handguns, rifles, carbines, sub-machine guns, assault rifles and light machine guns), including crew served machine guns and high-explosive projectile weapons. The definition includes the ammunition for these portable firearms as well as weapons (and its ammunition) that are designed and/or used for recreational purposes.).

- **Key components** are all kinds of materials, parts, substances, (mechanic, electronic and digital) systems, devices, infrastructures, ancillary constructions (such as vehicles, vessels, aircrafts, carriers, missiles, launchers, pods), services and programs which are specifically designed for controversial weapons.

- Under this policy, a **company or consortium** directly involved in both controversial weapons Category A and Category B is treated as being directly involved in controversial weapons Category A, the most restrictive category.

8 Energy

8.1 Scope

This policy applies to all ING's business engagements in the energy sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2). We consider the energy sector to include activities in the production and sale of energy, including fuel extraction, manufacturing, refining and distribution.

The energy sector as covered by this policy refers to clients engaged in the following activities:

- Oil and gas upstream, midstream and downstream activities and services, both onshore and offshore, including petrochemicals;
- Electric power generation from fossil fuels (coal, oil & gas);
- Electric power generation from renewable energy sources (wind, solar, hydro, geothermal and biofuels);
- Heat generation from renewable energy (geothermal and solar) and waste (industrial and commercial processes) sources:
- Biofuels (plant-based liquid and gas used as alternatives to fossil fuels);
- Trading, transmission, distribution and storage of energy products, including heat and power;
- Nuclear power.

8.1.1 ING's activities

Energy is a fundamental input to economic activity. The world faces twin challenges: (i) expanding economic opportunities for a growing global population; and (ii) addressing environmental pressures that, if left unchecked, could undermine our ability to seize these opportunities.

ING has a long track record and market-leading position in providing banking products and services to the energy sector. Our climate change and environmental policy underscores all of ING's activities in this sector. We commit in this to supporting an economically and socially just and orderly transition to a low-carbon economy. We take a responsible and prudent approach towards environmental impact management and encourage our clients to do the same.

8.2 Sector risks and best practices

8.2.1 Sector risks

Energy sector clients face an increasing challenge in meeting expanding energy needs whilst raising human welfare and minimising the cost to the environment. Greenhouse gas (GHG) emissions from fossil fuel-based energy sector activities make an important contribution to global warming and climate change. Current and future development of renewable energy sources will be key to the minimisation of these effects. However, abrupt changes in regulation expose the energy sector to transition risk (also refer to the climate change and environmental policy in chapter 4).

Adverse human rights and social impacts that may occur in the energy sector relate to worker health and safety, indigenous peoples, resettlement, community health and safety, value chain human rights risks and security. For further guidance and reference please see our human rights policy (chapter 3). See also the UNEP-FI human rights Guidance Tool for Oil and Gas, Power and Utilities.

Specific risks in the different subsectors include:

a) ***Oil and gas***
New oil and gas production assets are being explored and developed in increasingly complex operating environments, such as deep offshore waters, remote locations, conflict zones and in countries with weaker governance. Key risks can include:

- Adverse impacts on natural habitats and protected areas, including offshore marine habitats;
- Air emissions, including significant GHG generation and release of toxic gases such as sulphur and nitrogen oxides;
- Water contamination and water use in water-scarce areas;
- Oil spills and leakages;
- Unknown effects of new practices like hydraulic fracturing of shale.

b) ***Coal-fired power***
The GHG emissions profile of power-generation technologies is attracting increased attention. This is particularly the case for coal-fired power plants in relation to quality and technology choices. Key environmental and social risks can include:

- GHG emissions;
- Leakages associated with carbon capture storage (CCS);
- Large volumes of water extraction for cooling operations which affects water flow and quality.

c) ***Nuclear***
Nuclear power can generate electricity without greenhouse gas emissions. ING acknowledges nuclear energy generation has a small carbon footprint. However, there are significant environmental and social risks associated with producing nuclear energy. These are mainly linked to exposure to radiation due to accidents, mismanagement of nuclear waste or lack of security:

- Potentially large-scale impacts on environment and human lives in case of accidents like meltdown;
- Processing, transportation and storage of radioactive waste.

d) ***Hydroelectric power and other renewables***
Dams play an important role in providing renewable energy, flood control, and water services. However, they can also cause significant, sometimes irreversible, social and environmental damage to local communities and ecology. Key risks can include:

- Economic and physical displacement of people for the reservoir;
- Loss of traditional land, access to water-use rights, and damage to local fisheries;
- Ecological damage, reduction of water quality and disruption of river flow patterns;
- Safety issues related to dam failure or malfunctioning.

Renewable power is a cleaner form of electricity generation which is considered essential to the transition to a low-carbon economy. However, the development of wind, solar, geothermal, and biomass power generation may have environmental and social impacts that need to be carefully considered. Key risks can include:

- Impacts on legally protected areas or critical natural habitats or ecosystems due to land conversion, introduction of alien species;
- Noise, odour (biomass) and visual impacts;
- Use of toxic chemicals such as pesticides, mercury, arsenic, boron, and salt.

8.2.2 Sector best practices

In order to manage the risks identified in the different sectors, ING takes into consideration environmental and social industry standards and best practice guidance developed for industry sectors. This policy co-exists with ING's climate change and environmental policy and its public statements of commitment to the goals of the Paris Climate Agreement and the UN Sustainable Development Goals. ING encourages clients in the energy sector to seek continuous improvement in environmental, health and safety management and to follow best practices in their subsectors.

These include:

Energy	
General	World Bank Group Environmental, Health, and Safety Guidelines related to the relevant energy sector
Oil and gas	The International Petroleum Industry Environmental Conservation Association
	Extractive Industries Transparency Initiative
	Global Gas Flaring and Venting Reduction Voluntary Standard
	The International Association of Oil and Gas Producers
	Voluntary Principles on Security and Human Rights
	International Energy Agency
Hydropower	The International Hydropower Association (IHA)
	The World Commission on Dams
	IFC Hydroelectric Power – a Guide for Developers and Investors
	World Wind Energy Association Sustainability Guidelines

8.3 ING's standards

8.3.1 Restricted activities

- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

a) **Oil and gas**

- Mining, exploration and upgrading of oil sands, including pipeline infrastructure dedicated to the exclusive use of transporting oil from oil sands (i.e. not blended with other fossil fuels)
- Tar sands oil trading;
- Mining, exploration and upgrading of shale gas in Europe;
- Arctic offshore[23] oil and gas exploration and production.

b) **Coal-fired power**

- ING will **not finance** any **new thermal coal-fired power plants** or **thermal coal mines**. Existing financings are to run off, unless an earlier exit can be achieved without harm to the client;
- ING will **not engage new clients** whose gross revenue is **> 10% reliant on operating coal-fired power plants**. New clients whose **reliance on coal is ≤ 10%** should have a **strategy to reduce this percentage to ≤ 5% by 2025**.

[23] **Arctic waters** as defined in the International Maritime Organization (IMO) Polar Code

- All **existing clients** in the utilities sector should have **reduced their reliance on thermal coal to ≤ 5% by the end of 2025** to continue the relationship beyond that time.
- ING's phase-out of lending to individual coal-fired power plants will be completed by the end of 2025.

c) **Nuclear**
- Financing of high-level nuclear waste processing, transportation or storage activities.

8.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have distinctive levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients in the energy sector to comply with:

- Policies or certification that address the key sector risks for energy, including the human rights and environmental risks listed in section 8.2.1 of this policy;
- IFC Performance Standards and EHS Guidelines (including air emissions and ambient air quality, water conservation, hazardous material management, Free, Prior and Informed Consent (FPIC), and involuntary resettlement) when financing projects that meet the Equator Principles criteria;
- ING's ESR human rights and climate change and environmental policies.

8.3.2.1 Coal standards

In 2017, ING decided to accelerate the reduction of financing to coal-fired power generation, reducing our exposure to close to zero by 2025. ING aims to achieve this goal, while ensuring continuing support to those clients which are decreasing their absolute CO_2 emissions and intensity through exiting the use of coal power and diversifying to renewable sources of electricity generation.

Our reduction target applies to all financial services offered by ING to clients[24] operating thermal coal-fired power plants, where electricity generation is primarily for general electric purposes (i.e. to the power grid). This includes single-source coal power plants, diversified utility companies (DUCs), thermal coal mines (for specification of standards related to coal mines, please refer to ING's Metals and Mining policy in chapter 11), thermal coal mining companies, traders, and dedicated-use infrastructure such as terminals for exclusive thermal coal use[25].

Our reduction target does not cover:
- Coal-fired power plants dedicated to a specific project, such as an aluminium smelter or steel mill (these are often small i.e. <100MW), where an ESR assessment has evidenced that no cost-efficient alternative is available;
- Thermal coal used in the cement and brick industry;
- Thermal coal used in other applications, such as in filtration, cleaning or other specialist products like activated carbon, carbon fibre or silicon metal;
- Transport clients active along the thermal coal value chain (i.e. shipping, inland barges etc.) will be exempt unless the mandatory individual ESR assessment would yield a different result.
- Metallurgical coal, which is used in steel-making is out of scope as there is no alternative (this extends to metallurgical coal-related mining, transport, trade and commodity finance, commodity hedging and dedicated storage terminals for metallurgical coal).

[24] Note that this exclusion rule also applies to Trade Commodity Finance (TCF), Financial Markets (FM) (commodity hedging), Advisory Services & Capital Structuring, and Retail Banking (Mid Corp & SME).
[25] **Terminals for exclusive thermal coal** use refers to a port where both the quays and terminals have been specifically developed for thermal coal logistical purposes. Multi-functional ports that include thermal coal terminals for transhipment purposes are outside the scope of this restriction

How to assess if a client engagement falls under the reduction target
Coal-related activity for power generation under this reduction target is measured by installed capacity of existing thermal coal power plants as a proportion of total power generation. Coal-fired capacity that is shut down or mothballed will lower the coal percentage (Coal %) as long as it is adequately verified and documented. The policy includes a maximum ≤ 5% Coal % threshold for clients active in thermal coal. Coal power plants planned or under construction should be taken into account for existing and prospective clients. A company's Coal % is updated at least yearly during an annual review, and subject to approval by the senior credit officer.

8.3.2.2 Nuclear standards

Outside of our excluded activities (described in sections 2.11 and 8.3.1.c), it is allowed to provide financing for, and engage in client relationships with, companies that are active in the nuclear energy sector and/or in the design, construction, completion or maintenance of nuclear power facilities or equipment, provided all of the following conditions are met:

a) The nuclear power assets and/or operations of a company are predominantly located in an ESR Low Risk country. For other countries, ING requires a clause that funds or services may not be used for nuclear power plants, or its functioning, and
b) Company has a strong track record, with no material controversies.

Due to the risks associated with financing nuclear power, E&S risk appetite for nuclear power plants remains limited and would be subject to stringent E&S due diligence. However, longer term we can foresee a scenario where nuclear power technology is improved and encouraged as a low-carbon substitute, at which time ING's approach to financing nuclear energy may be re-assessed.

8.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;

b) The **role of ING** and other banks as well as the **product offered**:
   1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
   2) For **asset-based financing**, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required.

c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;

d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy.

e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
   1) It involves a project within the scope of the Equator Principles (chapter 13), or
   2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

8.4.1 Client's supply chains and commodity traders

Supply chain risks should be included in further evaluation, particularly where trade finance instruments are offered. Assessment should focus on:

- The extent the company discloses, analyses and mitigations of the environmental and social risks in its supply chain;
- Where relevant, the translation of the foregoing into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the operational control and leverage it has over its suppliers. This may be contingent on the client's relative size. Certain commodities may be processed before they become tradable products, which makes traceability of them a complex exercise. Therefore, supply chains vary significantly (some are relatively short, whereas others extend through multiple levels. Despite such dependencies and complexities, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- The sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);
- Availability of or the commitment to obtain internationally recognised certificates, where applicable;
- Traders are expected to have a sustainability/ESR sourcing policy in place. If not, the trader is expected to put such a policy in place within a reasonable timeframe. Compliance and progress on this standard is to be monitored on a regular basis.

9 Forestry and agricultural commodities

9.1 Scope

The Forestry and agricultural (agri-) commodities policy applies to all business engagements in the forestry and agri-commodity sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2).

The **agri-commodity** sector includes:

- Plantations for growing and harvesting agri-commodities;
- Milling, refining and processing agri-commodities (e.g. coffee, tea, cocoa, cotton, rubber, sugar cane and beet, rice, pulses or cashew, ethanol/biodiesel, fertilisers, soy and palm oil);
- Genetic engineering, modification or manipulation of plants and seeds, as well as their growing, harvesting, milling, refining and processing;
- Trading in agri-commodities which entails origination and collection operations that cover the sourcing, transport and storage logistics of agro products from where they are produced to a point where they are stored or undergo primary transformation;
- Note that all business related to beverage is captured under the manufacturing policy whilst breeding animals to provide food and aquaculture is captured under the animal welfare policy.

The **forestry sector** includes:

- Growing, harvesting forests and logging;
- Timber processing e.g. manufacturing wooden furniture;
- Pulp and paper mills;
- Trading in forestry (related) products.

9.1.1 ING's activities

ING is active in the food and agri-sector. It has gained a solid position in the agri-commodities space from which clients are selectively accepted, based on environmental and social criteria as set out in this chapter.

We envisage contributing to global food security as well as supporting local communities from an economic perspective. We take a responsible and prudent approach towards environmental and social impact management and encourage our clients to do the same.

9.2 Sector risks and best practices

9.2.1 Sector risks

Companies in the forestry and agri-commodity sectors face a great challenge in meeting the needs of a fast-growing, urbanising and industrialising global population. There is significant pressure to mobilise large numbers of farmers and obtain more land for farming.

The sector is considered high risk particularly in regions with weak or poorly enforced environmental and social legislation. Social risks include poor, unsafe working conditions and the potential presence of child [26] and forced labour. Where effective environmental controls are not in place, the demand for more farming land can result in deforestation, damage to ecosystems and lost biodiversity.

At the same time, the agri-sector is a significant economic contributor to the economy. It provides employment to a large part of all workers globally, many of them in poorer countries. In most developing countries, the sector is essential for the livelihoods of farmers, particularly smallholders.

[26] **Child labour** as defined by the International Labour Union

Applying industry best practices and promoting certification provides the industry with tools to assure traceability and manage supply chain risks effectively.

The environmental and social impacts associated with the forestry and agri-commodities sectors must be closely managed, particularly in ESR High Risk countries. Risks in these sectors include, but are not limited to:

- **Adverse human rights impacts**, including forced and child labour, non-living wages, discrimination of migrant workers and forced relocation;
- **Unsafe working conditions** including workplace incidents or fatalities and exposure to hazardous agrochemicals, use of unsafe equipment, noise;
- **Deforestation and loss of biodiversity**/endangered species and ecosystem services;
- Soil erosion, land degradation, natural stock depletion;
- **Harmful and malodorous air emissions** resulting from harvest, agricultural burning, pesticide spraying, emissions from fertilisers;
- **Water** contamination (e.g. due to the use of pesticides, fertilisers and fuels, lubricants and other chemicals and water use in water-scarce areas;
- **Land-related impacts**: Disputes over land tenure and land use (land grabbing), migration, involuntary resettlement, and decrease in local food security;
- Introduction of **invasive species**, including GMOs;
- **Speculation** on agri-commodity prices by commodity traders resulting in inflation of food prices;
- Inability to trace the primary source of the commodity as it is being produced by vast numbers of smallholders.

9.2.2 Sector best practices

ING encourages clients in the forestry and agri-commodity sector to seek continuous improvement in environmental, health and safety management. It encourages them to follow best practices, which include:

General agricultural standards that may involve any of the following certifications:

▪ World Bank Group Environmental, Health, and Safety Guidelines related to the relevant forestry or agri-sector
▪ Assured Food standards (AFS), a UK standard;
▪ Global Good Agricultural Practice (GAP);
▪ Rainforest Alliance Sustainable Agriculture Standard (SAN)/ UTZ Certified
▪ Sustainable Agriculture Practice Standard (SCS 001);
▪ Sustainable Agriculture Initiative Platform (SAI);
▪ Food and Agriculture Organisation of the United Nations (FAO) – Good practices. ▪ Fairtrade

Industry standards per specific agricultural product:

Commodity	Programmes / Certificates
Soy	▪ Roundtable on Responsible Soy Association (RTRS) ▪ Basel Criteria for Responsible Soy Production ▪ Pro Terra Certificate
Palm oil	▪ Roundtable on Sustainable Palm Oil (RSPO) ▪ International Sustainability and Carbon Certification (ISCC)
Cotton	▪ Better Cotton Initiative
Coffee, tea, cocoa	▪ Common Code for the Coffee Community (4C) ▪ Tropical Commodities Coalition for Sustainable Tea Coffee and Cocoa (TCC) ▪ Ethical Tea Partnership (ETP) ▪ World Cocoa Foundation (WCF)

Commodity	Programmes / Certificates
	▪ International Cocoa Organization (ICCO) ▪ International Coffee Organization (ICO)
Wood	▪ Forest Stewardship Council (FSC) certification ▪ Programme for the Endorsement of Forest Certification (PEFC)

Certification provided outside any of the above listed standards may still be considered by ING, particularly if:

- it is internationally recognised;
- the framework is independently verified, preferably by a multi-stakeholder body; and
- the standard is externally verified by an independent body on a regular basis.

Where certifications are not always in place other ways may be available to trace product origin. The challenge here is that a large proportion of soft commodities is not yet certified, although coverage, particularly in coffee and cocoa, is growing.

Certain companies implement their own systems to determine the level of sustainability in the supply chain by conducting on-the-ground assessments and audits. ING will consider such reports depending on the strength of the relationship and the quality of such assessments. However, this can be costly and time-consuming and there is no clear economic incentive for suppliers, especially smallholders, to comply.

9.3 ING's standards

9.3.1 Restricted activities

- Companies (except for existing clients as of September 2018) active as palm oil producers (plantations, crushing mills) or traders and refiners dedicated to palm oil;
- The production and processing of timber from illegal operations;
- Deforestation and/or burning down of tropical forests;
- Removal of primary or High Conservation (HCV) forests;
- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

9.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients in forestry and agri-commodities:

- To comply with ING's ESR human rights and climate change and environmental policies.
- To make efforts to comply with international conventions such as ILO and UNGP on human rights, commensurate with the size and impacts of their operations;
- To avoid directly or indirectly removing or harming peat lands that are essential for biodiversity and prevent captured CO2 being emitted or take necessary measures to mitigate this risk;
- To avoid pollution of soil, water and air by making use of the best available techniques.
- To avoid (in)directly producing or trade commodities that evidently originate from land grabbed from others;
- To strive to abstain from using chemicals that are listed on Annex III of the Rotterdam Convention or the Stockholm Convention;

- To refrain from deforestation of primary or High Conservation Value (HCV) forests and High Carbon Stock (HCS);
- To comply with IFC Performance Standards and EHS Guidelines (incl. Free, Prior and Informed Consent (FPIC) requirements) when financing projects in scope of EP.

The above general standards apply to all business engagements in the sector. Additionally, there are specific standards for subsectors.

9.3.2.1 Forestry

Traceability to the forest is key. Certification provides comfort that the forest is managed and operated responsibly at the primary source. Chain of custody certification enhances the likelihood that each level of the supply chain, including forest production, primary and secondary processing activities, is conducted in a sustainable way.

ING requires all relevant clients to adopt the Forest Stewardship Council (FSC) Schemes or the Programme for the endorsement of Forest Certification schemes. This includes wood plantations, traders, pulp producers and secondary processors.

9.3.2.2 Palm oil

Palm oil is the most widely used vegetable oil globally and the industry has grown at a rapid pace due to increasing global demand. The industry has been subject to continuous issues relating to deforestation, illegal logging, human rights (including forced resettlement of communities and labour issues) and pollution (particularly related to haze hazards as a consequence of illegal burning practices).

Therefore, ING has **no intention to expand its palm oil client base.**

For **existing clients**, ING performs **strict assessment criteria that are closely monitored**. The closer a client is to the source the more stringent our assessment becomes. Therefore, we make a distinction between production companies and traders in the standards we expect of our existing clients:

Plantations/crushing mills are:

a) An RSPO member or in the process of becoming a member.
b) Have a commitment to having their operations RSPO 100% certified set out in a time-bound plan. We require our existing clients to:
    1) Reach this within an (acceptable) time span of 3 - 5 years;
    2) Provide regular reports demonstrating their progress against the time-bound plan;
    3) Commit to having a No Deforestation, No Peat, No Exploitation (NDPE)[27] policy applicable to their own operations and their entire supply chains.
c) Have policies in place that:
    1) Prevent child/forced and bonded labour;
    2) Exclude involvement in operations that were/are identified as HCV areas or primary forests;

[27] **NDPE** includes:
1) **No Deforestation:** no development of High Carbon Stock (HCS) Forests; no development of High Conservation Value (HCV) Areas; no burning; progressively reduce greenhouse gas (GHG) emissions on existing plantations.
2) **No Peat:** no development on peat regardless of depth; best management practices for existing plantations on peat; where feasible, exploring options for peat restoration by working with expert stakeholders and communities.
3) **No Exploitation of People and Local Communities**: respect and support the Universal Declaration of Human Rights; respect and recognise the rights of all workers including contract, temporary and migrant workers and avoidance of child labour; facilitate the inclusion of smallholders into the supply chain; respect land-tenure rights; respect the rights of indigenous and local communities to give or withhold their free, prior and informed consent (FPIC) to operations on lands to which they hold legal, communal or customary rights; resolve all complaints and conflicts through an open, transparent and consultative process.

3) Exclude involvement in operations that are subject to continuous conflicts about land grabbing that remain unresolved.

d) Have a stakeholder engagement plan which addresses concerns/grievances of key stakeholders in an acceptable way (key stakeholders include at minimum local communities, workers and indigenous people). This is also embedded in the NDPE under No Exploitation.
e) Resolve all complaints and conflicts through an open, transparent and consultative process, as covered under NDPE.

Traders and refiners are:

a) An RSPO member or in the process of becoming a RSPO member;
b) Committed to trading RSPO-certified palm oil as much as possible and be willing progressively to increase trading to 100% RSPO-certified palm oil within an agreed timeline;
c) Transparent about their sourcing policies, which select and maintain suppliers based on ESR criteria relevant for the palm oil industry;
d) Committed to NDPE in their supply chains and have a time-bound plan to comply with that.

9.3.2.3 Genetically Modified Organisms (GMO)

Companies involved in the production of GMO seeds (and agrochemicals) fall under the scope of this policy. Often, such clients are also active in the production and trade of crop protection products such as pesticides and herbicides, so in certain cases the ESR chemicals policy will also apply.

Genetic engineering for crop cultivation purposes, including GMO seeds, is, in principle, allowed. Companies involved in the production of GMO seeds (and agrochemicals) should be evaluated under this ESR Sector Policy and against their overall track record. In addition, ING may engage with:

- Companies that buy modified products from other producers and use these in their own food production processes.
- Universities and hospitals that do GMO development research with plants if the research is done for medical purposes.

9.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
   1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
   2) For **asset-based financing**, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required.
c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy;
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries classified by ING as High Risk when:
   1) It involves a project within the scope of the Equator Principles (chapter 13), or

2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

9.4.1 Client's supply chains and commodity traders

Supply chain risks should be included in further evaluation, particularly where trade finance instruments are offered. Assessment should focus on:

- The extent to which the company discloses, analyses and mitigates the environmental and social risks in its supply chain;
- Where relevant, whether the company translates these into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the operational control and leverage it has over its suppliers. This may be contingent on the client's relative size. Certain commodities may be processed before it becomes a tradable product, which makes traceability of them a complex exercise. Therefore, supply chains vary significantly (some are relatively short, whereas others extend through multiple levels. Despite such dependencies and complexities, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- The sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);
- Availability of or the commitment to obtain internationally recognised certificates, where applicable;
- Traders are expected to have a sustainability/ESR sourcing policy in place. If not, the trader is expected to put such a policy in place within a reasonable timeframe. Compliance and progress on this standard is to be monitored on a regular basis.

9.5 Glossary

- **Agri-commodities:** are agricultural products resulting from the cultivation of soil and forestry. They include: food-related grains (wheat, corn, barley, etc.), oil seeds (soybeans/meals), edible oil, vegetables/pulses, fruits, honey, sugar, exotics (cocoa, coffee) and non-food-related products such as cotton, rubber, wool, timber, fertilisers, ethanol/biodiesel, pulp and paper;

- **Genetic engineering** is the term applicable to the direct manipulation of an organism's genes. Genetic engineering includes the use of the technique of molecular cloning and transformation to alter the structure (by editing) and characteristics (by engineering) of genes directly. Genetic engineering activities are often referred as genetic modification (GM) or genetically modified

organisms (GMO). Under this policy, gene editing (using CRISPR technology) as well as gene engineering (using GMO) are considered genetic engineering.

10 Manufacturing

10.1 Scope

This policy applies to all ING's business engagements in the manufacturing sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2).

The manufacturing sector refers to the production, assembly or recycling of:

- Beverages
- Textiles and apparel
- Furniture and related products
- Electrical equipment and appliances
- Transportation
- Industrial wholesale
- Building materials.

The production of the raw materials themselves (e.g. cotton or chemicals) is covered in other ESR sector policies (e.g. forestry and agri and chemicals).

10.2 Sector risks and best practices

10.2.1 Sector risks

The increasing practices of outsourcing and subcontracting to operations in emerging markets further complicate supply chains in manufacturing, thereby making it more difficult to appreciate the extent of a particular company's liability for environmental and social impacts. Maintaining responsible operations and supply chains is therefore a challenge for the sector; more particularly for those whose products are manufactured in emerging markets, where regulations may be weak or not enforced.

Risks in these sectors are related but not limited to:

- Significant use of water in processing and in production units impacting the availability of water to local communities and the environment;
- Significant carbon dioxide and other greenhouse gas emissions;
- Waste disposal and discharge, and end-of-life recycling and disposal of goods and products (particularly electrical and electronic equipment);
- Product safety, including the use of hazardous substances, product failures, water and soil pollution;
- Potential adverse human rights impacts including forced and child labour, unsafe working conditions, non-living wages, forced relocation, denial of freedom of expression, violence, and other abuses at the workplace, use of immigrant and migrant labour with minimal or no benefits or protection under labour regulation;
- Product traceability and labelling to counter illegally produced products (e.g. counterfeit);
- Fair and ethical relationships with suppliers while maintaining competitive consumer prices.

To address these risks effectively, clients in this sector must closely manage and monitor their environmental and social impact. This policy sets out the best practices and standards that ING expects of its clients.

10.2.2 Sector best practices

ING encourages clients in the manufacturing sector to seek continuous improvement in environmental, health and safety management and to move towards best practices which may be general or industry-specific. In certain cases, best industry practices may be identified with certifications or sector programmes.

Certificates and standards are considered to be strong by ING if they are:
- internationally or regionally recognised;
- independently reviewed; and
- preferably, verified by a multi-stakeholder body.

Best practice general standards that may involve a certification include:

- World Bank Group Environmental, Health, and Safety Guidelines related to the relevant manufacturing industry
- Standards for environmental management system (ISO 14001, it describes the process of how a product has been produced.
- Standards for occupational health and safety (OHSAS 18001 – will be replaced by ISO 45001 in the next 3 years)
- Social accountability 8000 (SA8000) standard
- REACH EU regulation on chemicals and their safe production and use;
- Consolidated version of EU Packaging and Packaging Waste Directive;
- Consolidated version of EU Directive on Waste from Electrical and Electronic Equipment (WEEE);
- ISO 14046 provides basic requirements for the measurement and reporting of a 'water footprint', setting an international benchmark for water use.

Best practices for ship recycling include the following:
- Responsible Ship Recycling standards
- Basel Convention on the Control of the Transboundary Movements of Hazardous Waste and their Disposal
- EU Ship Recycling Regulation
- Hong Kong Convention.

10.3 ING's standards

10.3.1 Restricted activities

ING will not finance any company or activity related to:
- The beaching of ships;
- Cash buyers (i.e. financing a buyer of scrap vessels);
- Shipbreaking yards, ships traded or transported for dismantling to these yards and buyers of scrap originating from these yards, unless either (i) the yards are EU approved under the EU Ship Recycling Regulations or (ii) the scrapping process is monitored or certified as operating responsibility by an independent party acceptable to ING;
- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

10.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients in the manufacturing sector:
- To comply with ING's ESR human rights and climate change and environmental policies
- To comply with IFC Performance Standards and EHS Guidelines (incl. Occupational Health and Safety) when financing projects that are within the scope of the Equator Principles;

- To have adequate understanding of the potential environmental and social risks associated with the manufacturing sector (as set out in this policy), as demonstrated through policies and management systems that mitigate and manage these risks.

This manufacturing policy applies to many different subsectors. Given ING's commitment to the Responsible Ship Recycling standards (RSRS) we seek to finance leading and reputable shipping companies who follow a responsible policy of vessel breaking. Additional standards on this topic are presented below.

Shipping – responsible vessel management

- All vessels financed by ING to have a Green Passport or Inventory of Hazardous Materials (IHM). This describes any materials present in a ship's structure and equipment that may be hazardous to human health or the environment. The presence of an IHM will contribute to the safety of crew members during the ship's working life, minimise the adverse effects on the environment and contribute to the safety of workers during the recycling process.
- ING engages with fleet-owning clients to promote sustainable ship recycling after the lifetime of the vessels they operate. ING will seek, wherever possible, to obtain and document client commitment regarding sustainable ship recycling in its loan documentation. At present, the following language is suggested: "The ship owner confirms that as long as it is in a lending relationship with ING, it will verify that any ship controlled by it with the intention of being scrapped is recycled at a recycling yard which conducts its recycling business in a socially and environmentally responsible manner".

10.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
    1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
    2) For **asset-based financing**, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required.
c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy.
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
    1) It involves a project within the scope of the Equator Principles (chapter 13), or
    2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk

Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

For the manufacturing sector specifically, it can be relevant to verify the client's labour conditions align as much as possible with the ILO's eight Fundamental Conventions. It may also be useful to determine the client's efforts to obtain internationally recognised certificates related to hazardous substances, its resource use efficiency, pollution (water and soil) and greenhouse gas emissions.

10.4.1 Client's supply chains and commodity traders

Supply chain risks should be included in further evaluation, particularly where trade finance instruments are offered. Assessment should focus on:

- The extent the company discloses, analyses and mitigates the environmental and social risks in its supply chain;
- Where relevant translates these into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the operational control and leverage it has over its suppliers. This may be contingent on the client's relative size. Certain commodities may be processed before they become tradable products, which makes traceability of them a complex exercise. Therefore, supply chains vary significantly (some are relatively short, whereas others extend through multiple levels. Despite such dependencies and complexities, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- The sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);
- Availability of or the commitment to obtain internationally recognised certificates, where applicable;
- Traders are expected to have a sustainability/ESR sourcing policy in place. If not, the trader is expected to put such a policy in place within a reasonable timeframe. Compliance and progress on this standard is to be monitored on a regular basis.

10.5 Glossary

- The **textile and apparel** sector includes the production and wholesaling of textiles and the processing of raw materials into the fabrics from which the end-product is made.
- **Furniture and related products** sector includes the production and wholesaling of furniture and related articles, such as mattresses, window blinds, cabinets, and fixtures.
- **Electrical equipment and appliances** sector includes the production and wholesaling of products that generate, distribute and use electrical power.
- **Transportation** includes the production and wholesaling of vehicles (including automotive), ship and air transport industries
- **Traceability** is the process by which enterprises track materials and products and the conditions under which they were produced through the supply chain.

11 Metals and mining

11.1 Scope

This policy applies to all ING's business engagements in the metals and mining sector with clients as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2).

The scope of this policy covers mining and processing operations, including the following:

- The development, construction, operation, maintenance and decommissioning of installations for extraction, development, production, processing, smelting, refining and storage of mining products;
- Materials covered by mining include base metals, precious metals, ferrous and non-ferrous metals, uranium, coal, diamonds, limestone, rock salt and specific minerals used in fertilisers.

11.1.1 ING's activities

ING finances activities in the metals and mining sector globally. Our focus is mainly on:

a) London Metal Exchange (LME) grade base-metal commodities like aluminium, copper, nickel and zinc;
b) Precious metals like gold, platinum and silver;
c) Bulk minerals like bauxite, potash and iron ore.

New projects and existing producers are financed with a variety of structured lending products, covering all stages of the commodity cycle in the metals and mining sector. ING's financings typically enable clients to finance working capital requirements, investments, capital expenditure and acquisitions.

11.2 Sector risks and best practices

11.2.1 Sector risks

Metals and mining clients face an increasing challenge in meeting expanding needs for mining products while safeguarding human welfare and minimising negative impact on the environment. Meeting this challenge requires that environmental and social impacts associated with the metals and mining sector be carefully managed. Common risks in the metals and mining sector include, but are not limited to:

For mining operations: (New) mining assets are increasingly being developed in more complex environments (remote locations, countries with weaker governance or conflict zones). These present developers, contractors, traders and financiers with additional environmental and social risks. The key concerns include:

- The direct impact and footprint of the mining operations (environment and social) and surrounding areas (including – but not limited to – erosion; formation of sinkholes; loss of biodiversity; threatened or endangered species; contamination of soil, groundwater and surface water by chemicals from mining processes);
- Emissions, both airborne (noise, dust, gas emissions, including SOx, NOx and CO2) and ground- and surface water-based (sediment levels, cyanide, heavy metals including acid-rock drainage);
- Water consumption, disposal and impact on aquifers and freshwater sources, including tailings management;
- Risks and impacts related to project-induced resettlement and impact on vulnerable or indigenous peoples;
- Other risks and impacts to community and labour health and safety (accidents, spread of communicable diseases due to influx of labour).

For smelting and refining activities: The greenhouse gas (GHG) emissions profile of industries, smelting and refining plants is attracting increasing attention. The key concerns include:

- Air emissions, including particulate matter (PM), NOx, CO and CO2, SOx, volatile organic compounds (VOC) released from thermal processes, melting activities, blast-furnace cleaning, mechanical actions (scarfing and grinding) and raw-material handling;
- Contaminated soil and groundwater from solid waste and by-products containing heavy metals, oil and grease, or asbestos;
- Improper disposal of wastewater from cooling water, storm water, rinse water, and other process effluent streams;
- Labour risks including health, safety and security of employees e.g. accidents, forced labour, spread of communicable diseases due to influx of labour;
- Risks to community health and safety from accumulative contamination of land, water and dwellings with fine-metal particulate, deposition of metals and other pollutants.

The policy therefore describes standards and processes that will assist ING in mitigating such risks in a consistent manner.

11.2.2 Sector best practices

ING encourages clients in the metals and mining sector to seek continuous improvement in environmental, health and safety management and to follow best practices, which include:

Metals and Mining	
General	• World Bank Group Environmental, Health, and Safety Guidelines related to the mining sector
	• International Council on Metals and Mining (ICMM)
	• Extractive Industries Transparency Initiative (EITI)
	• Extractive Sector Transparency Measures Act (ESTMA)
	• Standards for Environmental Management System (ISO 14000 and 14001)
	• Standards for Health and Safety Management System (OHSAS 18001)
Diamonds	• Kimberley Process Certification Scheme
	• Responsible Jewellery Council (RJC)
	• World Diamond Council
Gold	• International Cyanide Management Code For The Manufacture, Transport and Use of Cyanide In The Production of Gold (Cyanide Code)
	• Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains
	• Voluntary Principles on Security and Human Rights
Conflict mineral laws	• Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas
	• Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to the use of conflict minerals
Supply chain	• The OECD Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

11.3 ING's standards

11.3.1 Restricted activities

- Mining of and trade in rough diamonds unless Kimberley Process certified;

- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II;
- Artisanal and small-scale mining (ASM) companies or activities;
- Mountain-top removal (MTR) of coal;
- Mining of asbestos, uranium or thermal coal (including lignite) via projects or clients whose core business activities are reliant on operating asbestos, uranium or thermal coal mines.

11.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients in the metals and mining sector:

a) To comply with policies or certification that address the sector key concerns for mining, smelting and refining activities listed in section 11.2 of this policy;
b) To comply with IFC Performance Standards and EHS Guidelines (including air emissions and ambient air quality, water conservation, hazardous material management, Free, Prior and Informed Consent (FPIC), and involuntary resettlement) when financing projects that meet the Equator Principles criteria;
c) To comply with ING's ESR human rights and climate change and environmental policies.

11.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
    1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
    2) For **asset-based financing**, the specific asset and its impacts are also relevant. Often, this requires project-specific documentation and client engagement. Its application to Equator Principles needs to be checked and additional documentation may be required;
c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy.
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
    1) It involves a project within the scope of the Equator Principles (chapter 13), or
    2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

For the metals and mining sector specifically, it is important to assess whether the client is certified on or aligned with recognised international industry standards such as ISO 14001, OHSAS 18001, SA8000 and/or the International Cyanide Management Code; and to assess geography and contextual circumstances (e.g. presence of artisanal and small-scale mining (ASM) in and around our client's operations, project-induced in-migration etc.).

11.4.1 Client's supply chains and commodity traders

Supply chain risks should be included in further evaluation, particularly where trade finance instruments are offered. Assessment should focus on:

- The extent the company discloses, analyses and mitigates the environmental and social risks in its supply chain;
- Where relevant translates these into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the operational control and leverage it has over its suppliers. This may be contingent on the client's relative size. Certain commodities may be processed before they become tradable products, which makes traceability of them a complex exercise. Therefore, supply chains vary significantly (some are relatively short, whereas others extend through multiple levels. Despite such dependencies and complexities, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- The sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);
- Availability of or the commitment to obtain internationally recognised certificates, where applicable;
- Traders are expected to have a sustainability/ESR sourcing policy in place. If not, the trader is expected to put such a policy in place within a reasonable timeframe. Compliance and progress on this standard is to be monitored on a regular basis.

11.5 Glossary

- **Thermal coal,** or steam coal, as defined in this policy, is any coal mainly used in power and heat generation, which mainly includes lignite and subbituminous coal.
    - **Subbituminous**: Subbituminous coal is black in colour and dull (not shiny), and has a higher heating value than lignite.
    - **Lignite**: Lignite coal, aka brown coal, is the lowest grade coal with the least concentration of carbon.

- **Metallurgical coal**, or coking coal, is mainly used for making steel, which requires better quality coal, such as anthracite or bituminous coal.
    - **Anthracite**: The highest rank of coal. It is a hard, brittle, and black lustrous coal, often referred to as hard coal, containing a high percentage of fixed carbon and a low percentage of volatile matter.
    - **Bituminous**: Bituminous coal is a middle-rank coal between subbituminous and anthracite. Bituminous usually has a high heating value and is the most common type of coal used in electricity generation for steel making and other high-energy-consuming industries.
- **Mountain-top removal** is defined as surface mining activities where the mining operation removes an entire coal seam or seams running through the upper fraction of a mountain, ridge, or hill. By removing substantially all of the overburden off the bench it creates a level plateau or a gently rolling contour, with no high walls remaining, capable of supporting higher and better post-mining land use.
- **Conflict minerals** refer to natural resources extracted in a conflict zone and sold to perpetuate the fighting. There is both statistical and anecdotal evidence that belligerents' accessibility to precious commodities can prolong conflicts (a "resource curse"). The most prominent contemporary example has been the eastern provinces of the Democratic Republic of the Congo (DRC), where various armies, rebel groups and outside actors have profited from mining while contributing to violence and exploitation during wars in the region.

12 Infrastructure

12.1 Scope

This policy applies to all ING's business engagements in the infrastructure sector with clients (supporting public and private sector infrastructure and civil engineering works) as defined in **Scope** in chapter 1 of this ESR Framework (section 1.2).

This covers (but is not limited to): roads, railways and bridges, trams, metros and subways, ports, harbours and marinas, dredging activities, dams and reservoirs, airports and industrial facilities, hospitals, water distribution, treatment and desalinisation, and real estate development.

12.1.1 ING's activities

ING finances socially essential infrastructure assets that underpin the real economy. Given their essential purpose, infrastructure assets tend to be investment- or near-investment-grade and recession-remote. Hence, the sector delivers steady performance through the economic cycle. Clients include major utilities, water, waste management and gas companies, construction companies, developers and specialist operators.

12.2 Sector risks and best practices

12.2.1 Sector risks

Key human rights, environmental and climate change related risks in the infrastructure sector include:

- Workers' rights and health and safety (particularly during construction);
- Involuntary resettlement of communities, including indigenous and vulnerable peoples;
- Impact on communities and their livelihoods as a result of the development of large areas of land or reduced access to water and/or resources;
- Environmental impact on communities, including noise, waste and other forms of pollution, both during and after construction;
- Use of security services to guard installations;
- Supply chain risks, including forced or child labour;
- Climate change including physical and transition risks.

12.2.2 Sector best practices

ING encourages clients in the infrastructure sector to seek continuous improvement in environmental, health and safety management and to move towards best practices, which include:

Best Practice	• IFC Environmental and Social Management System Implementation Handbook
	• Standards for environmental management system (ISO 14001 and 29001);
	• Standards for occupational health and safety (OHSAS 18001) ;
	• Social accountability 8000 (SA8000) standard

12.3 ING's standards

12.3.1 Excluded activities

- Operations located in or significantly impacting UNESCO World Heritage Sites, wetlands registered by the Ramsar Convention and critical natural habitats registered by the International Union for the Conservation of Nature (IUCN) Category I and II.

12.3.2 ING's standards

Our clients are required by law to be compliant with local environmental and social legislation, regulation and permit requirements. ING acknowledges different jurisdictions to have various levels of advancements. Therefore, local distinctions are respected and companies are given time to implement new policies and standards where necessary to align with our standards.

We expect our clients in the infrastructure sector:

- To comply with ING's ESR human rights and climate change and environmental policies;
- To comply with IFC Performance Standards and EHS Guidelines (incl. occupational health and safety) when financing projects that meet the Equator Principle criteria;
- To have adequate understanding of the potential environmental and social risks associated with the Infrastructure sector (as set out in this policy) as demonstrated through policies and management systems that mitigate and manage these risks;
- Where one or more contractors perform project works on the client's behalf, to require the contractor(s) to comply with ING's standards.

12.4 Evaluation approach

When evaluating business engagements that are in-scope of the Full ESR screening, we take a risk-based approach. We conduct more in-depth evaluation for engagements with a potentially bigger social and environmental impact. If, for example, a business engagement concerns project financing in a high-risk country to a client with track-record issues, the evaluation will be more in-depth, focused on the specific asset and its impacts, and the advice is more likely to contain conditions.

When the business engagement screening results in an ESR Medium Risk or High Risk outcome (based on the sum of the ESR client and ESR transaction assessments), the additional environmental and social impact evaluation is based on:

a) The **rationale and details that triggered the ESR risk outcome**;
b) The **role of ING** and other banks as well as the **product offered**:
    1) For **general financing**, the relevant ES management, commitments and track record are mainly company-level. This information is often readily available.
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c) The **detailed track record** of the borrower, operator or sponsor indicating any environmental and social issues in the past;
d) **Details of the client ES management practices**, including policies and their coverage, ES management systems, and transparent reporting and resources to manage and mitigate the sector-specific risks identified in this policy.
e) **Review of an independent consultant**: an independent consultant should be involved in the full ESR evaluation of a transaction in any of the countries listed in Annex A when:
    1) It involves a project within the scope of the Equator Principles (chapter 13), or
    2) The engagement gives rise to a high ESR impact (e.g. large-scale human resettlement and other adverse impacts on human rights, indigenous people, critical habitats classified as IUCN III-VI or cultural heritage sites).

Front Office (either a relationship manager or the deal principal) presents a case based on these five points to the global ESR team (for ESR High Risk outcomes) or the directly responsible local Credit Risk Manager (for ESR Medium Risk outcomes). Where required information for the evaluation is not publicly available, the Front Office is principally responsible for engaging with the client to verify compliance with this policy. It summarises the relevant information for points a-e above and an overview of the

advice given by ESR/local Credit Risk Management in a credit rationale (more detailed information should be included in an annex).

Depending on the specific case and circumstances, further evaluation may be warranted, which, in addition to the above points, may take into account the client's approach to stakeholder engagement and whether this addresses concerns or grievances of key stakeholders (including local communities, employees and indigenous people) in an acceptable way.

12.4.1 Client's supply chains

Supply chain risks should be included in further evaluation, particularly where trade finance instruments are offered. Assessment should focus on:

- The extent the company discloses, analyses and mitigates the environmental and social risks in its supply chain;
- Where relevant translates these into acceptance criteria in its selection and monitoring of suppliers.

ING acknowledges that a client's monitoring ability is dependent on the operational control and leverage it has over its suppliers. This may be contingent on the client's relative size. Certain commodities may be processed before they become tradable products, which makes traceability of them a complex exercise. Therefore, supply chains vary significantly (some are relatively short, whereas others extend through multiple levels. Despite such dependencies and complexities, ING follows a risk-based approach and, as such, the following types of evaluation are encouraged:

- The client's primary supply base and countries of origin;
- The sourcing policy of the client that selects and maintains suppliers based on environmental, social and corporate governance (ESG) criteria relevant for the industry;
- Human rights concerns in the countries or regions of origin;
- The ES supply chain track record of the client and its primary supply base (identification of accidents/incidents, legal penalties, protests or other allegations and how have these been managed);
- Availability of or the commitment to obtain internationally recognised certificates, where applicable;
- Traders are expected to have a sustainability/ESR sourcing policy in place. If not, the trader is expected to put such a policy in place within a reasonable timeframe. Compliance and progress on this standard is to be monitored on a regular basis.

12.5 Glossary

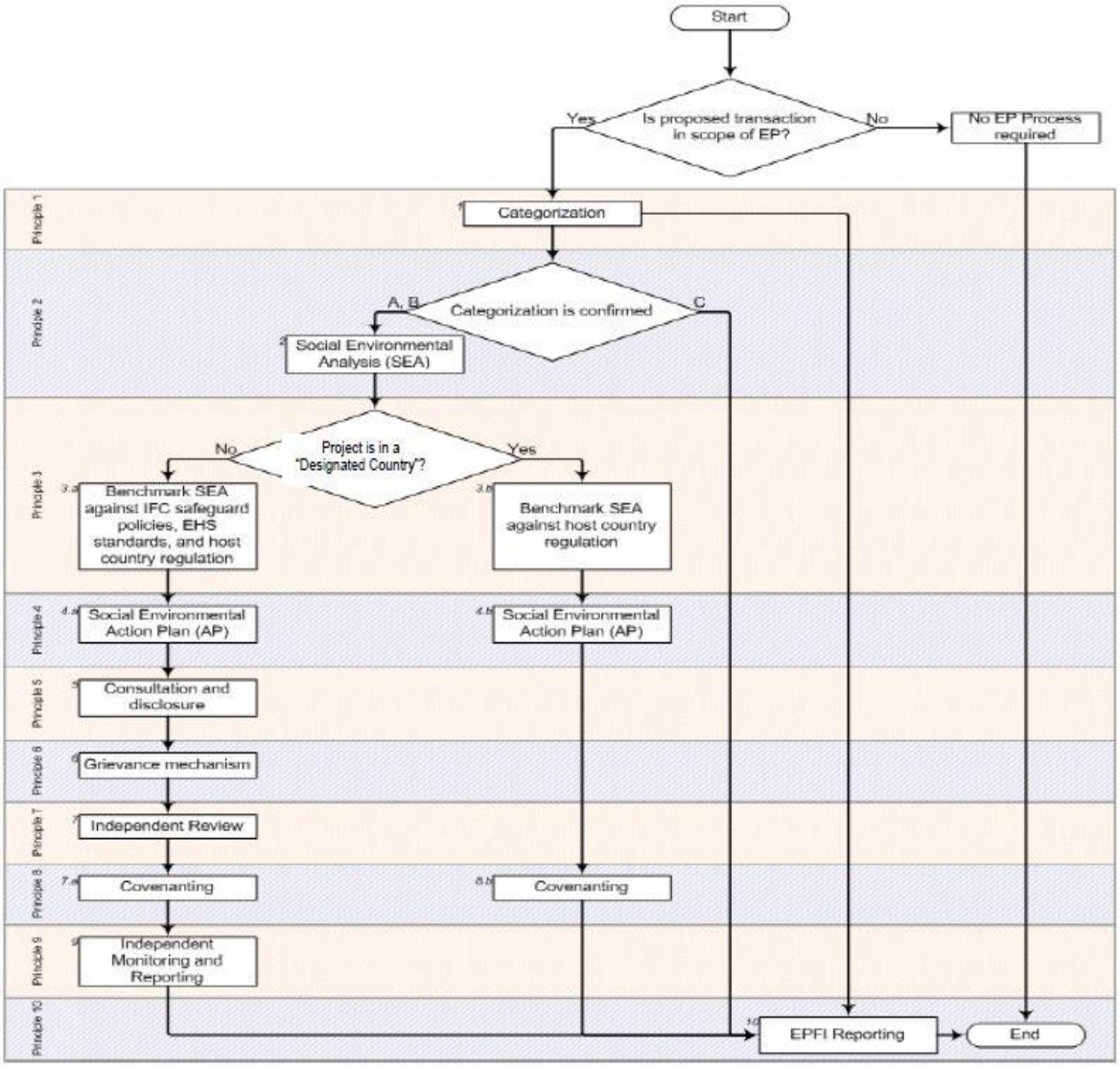
- **Private sector infrastructure projects**: may include any of the infrastructure works mentioned above, and may include specialist private equity or infrastructure funds as well as private sector companies;
- **Public Private Partnerships** (PPPs): concern those projects where a public sector entity contracts the private sector, for example through concession contracts or service contracts;
- **Public sector infrastructure projects**: are normally through a municipality or national government ministry; they often contract private sector firms to construct and/or maintain the works.

13 Equator Principles

As a banking activity, project financing plays an important role in economic development throughout the world.

By undertaking this activity, banks and financial institutions often encounter environmental and social issues. In order to provide an industry standard benchmark for managing environmental and social risks in project finance transactions, the Equator Principles (EP) have been formulated in June 2003, revised in June 2006 and again in June 2013. The Principles were based on International Finance Corporation (IFC) and World Bank (WB) policies and guidelines. ING adopted the Equator Principles in June 2003 as well as its subsequent revisions.

ING Bank has adopted the third revision of the Equator Principles (EPIII) in June 2013 and fully embedded it its ESR evaluation process. Project or project-related financing must first meet ING's risk appetite, not conflict with the ESR List of Restricted Activities and/or Sector ESR policies.

13.1 Overview Equator Principles process

A typical transaction approval in the context of Equator Principles is as follows: