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Environmental and Social Risk Policy Framework

Management of Environmental and Social Risks (ESR) is an integral part of ING's mainstream financial risk management practices. This means that potentially negative socio-environmental fallouts of transaction or client engagements are thoroughly evaluated before any business decision is taken.

ING has always applied high environmental and social standards in its operations and client engagements. ING's Environmental and Social Risk (ESR) Policy Framework was first formalized in 2003, and addresses issues such as Human Rights, Environment protection and ethical dilemmas. By enforcing the standards contained therein, ING facilitates the overall improvement of clients risk profile and indirectly contributes to a more sustainable society. All ING activities are subject to ESR policies.

Policies refinement is a continuous process in ING. ING undertakes policy evaluations on a regular basis to ensure that ING's risk appetite properly considers stakeholder needs and market trends. ESR Policies have been extensively adjusted and refined. The latest extension revision took place in 2008, when ESR policies scope was extended to all business operations and client engagements. In September 2009, the Defence policy was reviewed and the list of restricted companies has been updated on the basis of [a more stringent Defence policy](#).

The current set of the ESR Policies consists of the following categories:

- General policies: there are nine policies in total which deal with a variety of issues potentially present in a sector or business activity that may be controversial and/or carry reputational risk. General policies contain clearer guidelines about potential exclusion of engagements. Human Rights Policy and the Environmental Compliance Policy are embedded in all ESR policies, therefore have an overarching role;
- Sector-specific policies: three sector policies deal with environmental, labour and Human Rights issues that are particular to sectors considered more susceptible to significant ESR fallout;
- Equator Principles: this policy deals with environmental and social aspects related to projects and asset financing and is based on a standard approach adopted by more than 65 financial institutions worldwide.

In 2009, 43% of advices issued by the ESR team were based on General ESR Policies, 26% related to Sector Specific ESR Policies and 31% related to Equator Principles. Out of all the advices 13%, resulted in a negative advice.

The policies are listed the image below.



ESR Governance Model

The ESR Framework is managed by a dedicated team placed within the Corporate Credit Risk organization. The ESR team has among its main responsibilities the development, update and implementation of policies across ING Group. The ESR team also has an advisory role for transactions that are potentially considered of high risk.

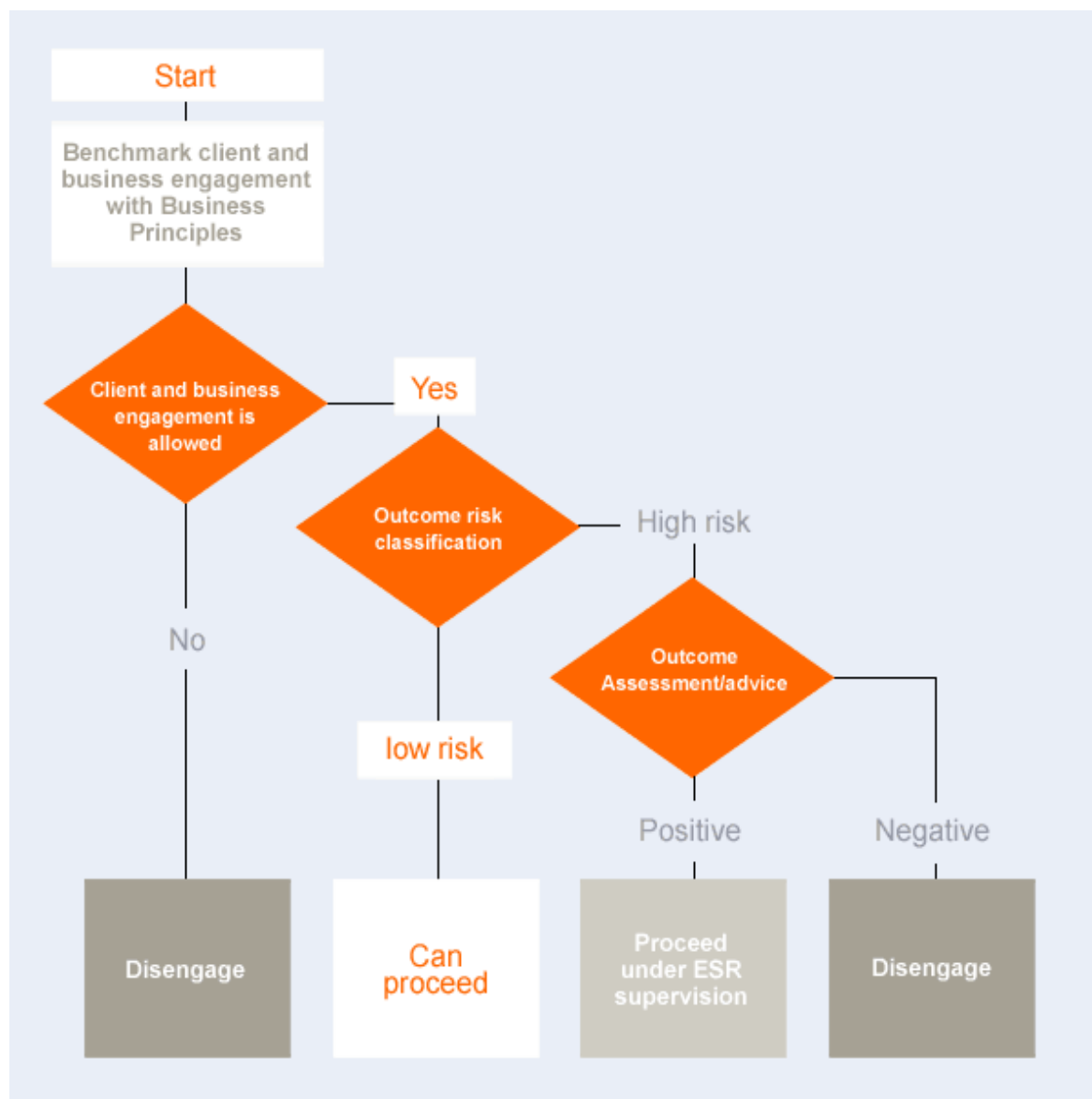
Furthermore, considering the number of transactions and the extension of ING business activities, an ESR governance model is in place to ensure that local risk management and business teams joint efforts and share ownership of ESR due diligence group wide.

In this regard, the ESR assessment associated with ING’s business engagements requires the involvement of:

- (a) Front Office - the departments in charge of client relationship and/or originate transactions (leading to potential ES Risks); and
- (b) Risk Management – the departments which support and supervise Front Office activities especially regarding transaction structuring and approval processes (may include involvement of ESR team).

When considering new business engagements ING Front Office teams first check whether the engagements are in line with ING Business Principles and customer acceptance rules. The second step is to determine if the engagement falls within ESR scope and, if so, whether it is not restricted, carries “high” or “low” risk as per the ESR policies. The qualification as “high” or “low” risk considers, among others, the client profile, incidence of negative publicity against the client or project, the industrial sector and the country where it operates.

For “low risk” transactions, Front Office and Risk Managers proceed with the engagement as usual. For “high risk” transactions, a further ESR assessment has to be undertaken and may require a mandatory ESR team advice, depending on the approval authority level. Advices from the ESR Team are binding and can only be waived by the highest credit committee or the Executive Board. In practice, such waivers are exceptional.



Training and Awareness-raising

ING has business operations worldwide, therefore dealing with different country frameworks, cultures and regulation is sometimes a challenge. In order to ensure that ESR policies are consistently applied within the organization, training and awareness initiatives have high priority within the ESR framework.

Since 2007, global and specific training programs are being offered to ING employees, with emphasis given to teams dealing with sectors and clients with high socio-environmental footprint. 2009 achieved another important mark, with approximately 300 employees trained on ESR policies. Class training

sessions, interactive presentations, conference calls and regional site visits complete the efforts of further enhancing ESR understanding and implementation in an orderly and consistent manner.

ING ESR Policies have a group-wide scope and are applicable to all activities, products and services offered to clients. In this sense, training and awareness-raising initiatives to ensure responsible business engagements will be continued in 2010. For the year to come, focus will be put on training regional offices, reinforcing sign off delegation and clarification of issues as climate change, defence and nuclear .