

Human Rights Update 2019

An exercise for proactive engagement



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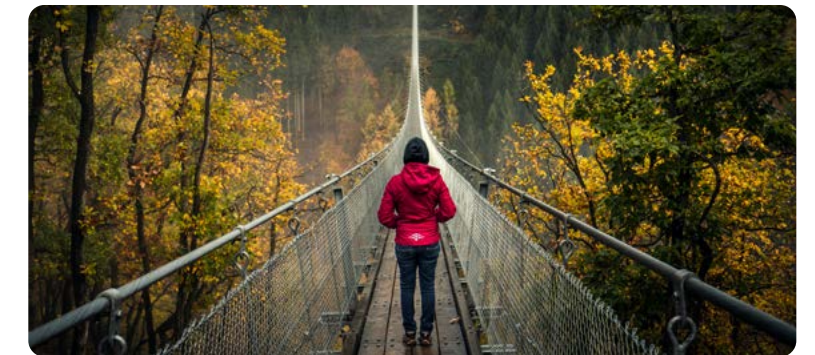
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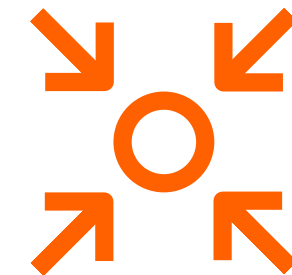
ING at a glance

Our purpose is to empower people to stay a step ahead in life and in business. We believe that we are a trusted partner to our clients, providing responsible financial services that enable economic progress. We are a global financial institution with a strong European base. Our customers are at the heart of everything we do.

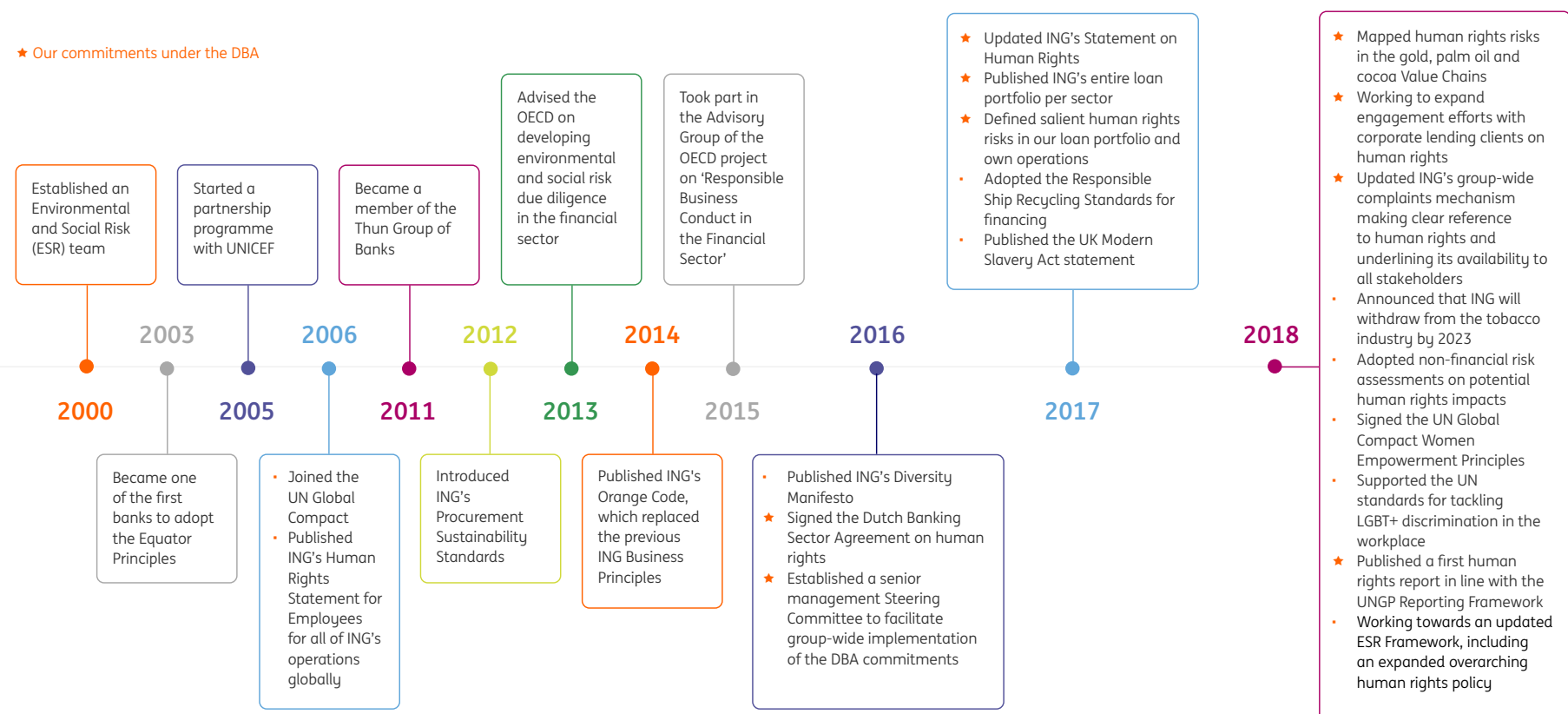
While customer centricity guides our business conduct, in our decisions we aim to balance the interests of all stakeholders, whilst operating within international norms and best practice. In the realm of human rights ING is guided by two such international norms and best practice standards - the OECD Guidelines for [Multinational Enterprises](#) and the [United Nations Guiding Principles for Business and Human Rights](#) (UNGPs) (among other commitments listed [here](#)). We are also a signatory to the [Dutch Banking Sector Agreement on Human Rights](#) (DBA). ING and its clients have the potential to impact human rights through their operations across sectors and geographies. We could cause, contribute to, or be linked to potential or actual human rights impacts. Our ambition in our human rights journey is to understand these impacts and to take appropriate action to avoid or mitigate harm and cooperate in remedy when harm occurs. Our human rights governance, policies, programmes, approach, due diligence and strategic priorities are detailed in our [2018 Human Rights Report](#).

To add context, ING has a Wholesale Banking lending book totalling €251 billion outstandings (as at June 2019). We provide corporate and financial institutions with specialised lending, tailored corporate finance and debt and equity market solutions. We also offer working capital solutions, payments and cash management and trade and treasury services. Our global franchises serve a wide range of organisations, including multinational corporations, financial institutions, governments and supranational bodies. In this update we focus on our role as a corporate lender and an exercise we undertook over 2018 and 2019 with a specific focus on general corporate lending as well as trade and commodity finance.

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ING's human rights journey



★ Our commitments under the DBA

- We began to follow up on the recommendations from DBA working groups and publications, such as exploring ways to increase leverage as described in this report
- We published an update of our ESR Framework with an enhanced stand-alone Human rights policy that includes potential human rights risks indicators per sector. The updated policy encourages clients to identify, manage and disclose human rights issues in their supply chains. Other changes include enhanced policies on topics relating to human rights (such as tobacco)
- At the request of the UN Human Rights Office of the High Commissioner, we hosted a meeting with the Dutch private industry and the UN High Commissioner for Human Rights, Ms Michelle Bachelet, during her first official visit to the Netherlands
- We became a founding signatory to the UNEP FI Principles for Responsible Banking
- We completed the exercise phase for proactive human rights engagement

* For our detailed human rights journey please be directed to our [2018 Human Rights Report](#)



Introduction

The purpose of this update

At the start of 2018, we decided to exercise a client engagement on human rights with 29 clients. This came about through an exploration of leverage, salience and an ambition to learn and improve. This first phase has been all about learning and we hope to take these learnings forward in the future and feed them back into our own due diligence. The aim of this human rights update is to share our actions and learning through this exercise.

What we have set out below is all about raising awareness, using leverage, testing salience and using the UNGPs as a way to proactively engage a trial group of ING clients on the topic of human rights. While we already engage our corporate clients on the topic of human rights, we wanted to test new approaches within an exercise.





“Often, companies will wait until an initiative is complete to report publicly on what the process was and what the outcomes were, which does not leave much room for discussion, feedback or change. That’s why it’s interesting when companies share their experience, while they’re still reflecting on the learnings and how they may affect future practices. Sharing this kind of information in a timely manner can allow stakeholders to more meaningfully engage in the process, hold companies to account on progress, and offer feedback that can help companies strengthen their management of human rights issues.”

– Michelle Langlois, advisor, Shift

While this exercise's specific approach was new, risk engagement is something ING undertakes regularly as a precursor and follow up to business relationships. Our front office staff engage clients on a regular basis while our Environment and Social Risk team of topic experts engage clients involved in higher risk sectors and activities with potential risks to people or the environment. This type of engagement ranges in methods and remains an integral part of ING’s risk management.

Before diving into the content of this update, it is important to establish what risk-based engagements are and how they differ from the content discussed in the remaining pages:

At ING we engage corporate clients through multiple ways/channels and throughout different stages of a client relationship. One key part of our human rights due diligence is risk-based engagements. We elaborate on these engagements at length in our [2018 Report](#). In this report we explain how our Environmental and Social Risk team might be triggered to engage, depending on the outcome of an overall risk distribution of a client and/or transaction. These conversations and follow-ups are centred around environmental and social issues and improvement areas, as well as [our policy](#) and other frameworks we adhere to, such as the [Equator Principles](#).

The amount of leverage we have in risk engagements varies, depending on the maturity of a relationship, business volumes and whether ING is the

client's primary bank. For example, we have an in-depth leverage with the client when providing project finance, however this is not always possible when providing general purpose loan. This can be due to vast and complex operations and worldwide sites which cannot all be visited or audited. By contrast, in project finance we have direct influence on the ground through the entity we are financing. We use our leverage in contractual conditions on project improvements or even through site visits. Environmental and Social Risks (ESR) mandated risk engagements are the first and primary way we continue to engage on human rights in specific topics. With the incorporation of the environmental and social client screening in ING's mainstream KYC processes, we make sure that potential human rights risks are identified from the first stage of our engagement with new clients.

This exercise goes beyond what we might typically discuss with clients. It allowed us to reiterate in multiple ways why respect for human rights is important to us. It was an additional opportunity to liaise with clients on discussions not linked to a financial transaction or time pressure, resulting on an open discussion and learning exercise. We hope that the outcomes described below will help other companies learn from our experience and inspire them to embark on their own human rights journey.



What we aim to demonstrate with this annual update:

- our progress in embedding respect for human rights into the fabric of our business;
- our progress in addressing and learning about our salient issues;
- our dilemmas and challenges;
- our exploration of leverage;
- our learning and growth;
- our next steps and priorities.

We also hope sharing our journey will inspire other banks to join us in enhancing engagement, exploring leverage and learning with their clients. Such a sector-wide approach can be more effective raising expectations across borders.



Our journey to a proactive engagement approach

As a global bank we have the opportunity to contribute to positive human rights impacts across sectors and geographies, but we also run the risk of becoming involved, either directly or indirectly, in human rights violations or adverse human rights impacts. According to the global business expectations set out in the UNGPs, we have a responsibility to avoid causing or contributing to harm and to enable access to remedy when harm occurs. In 2018 we published a UNGP Reporting Framework-aligned report, outlining our policies, programmes and management of human rights risks. The 2018 report shows how we identify our biggest risks to people, and how we conduct human rights due diligence.

In the spirit of collaboration ING has also been a member of the [Dutch Banking Sector Agreement on human rights \(DBA\)](#) since 2016. This multi-stakeholder agreement focuses on corporate loans and project finance activities. Through our participation in this agreement, and the resulting working groups, we have learned and enabled others to learn. Collaboration in the Dutch Banking Sector Agreement has triggered the participants to debate the possibilities of leverage and the complexities of the banking sector in achieving a meaningful and effective human rights impact. Banks generally do not own operating assets but banks provide essential working capital and other finance solutions to support the operations of our clients assets, which in turn impact the lives of workers, their families and communities. There are many ways in which

we can conduct due diligence to play our part in the value chain of human respect and the DBA parties have explored this. One learning from our DBA participation which conducted the journey to our exercise engagement approach is on the topic of leverage. We have explored and learnt about the diverse ways of using and increasing leverage. Many of these are referenced in the 2019 [Increasing Leverage Report](#), a joint publication from the DBA.

Delving deeper into the concept of leverage, the commentary on UN Guiding Principle 19 states that leverage is considered to exist where the company has the ability to effect change in the wrongful practice of an entity. There are a myriad of ways to execute forms of leverage and to increase this leverage. Leverage can be exerted in traditional ways, such as through contracts or audits, but also through engagement. In the context of our exercise, leverage has been about increasing awareness of and transparency about human rights risks. Furthermore, we hope this process will help clients explore their own due diligence and their relationship to the salient issues that ING faces.

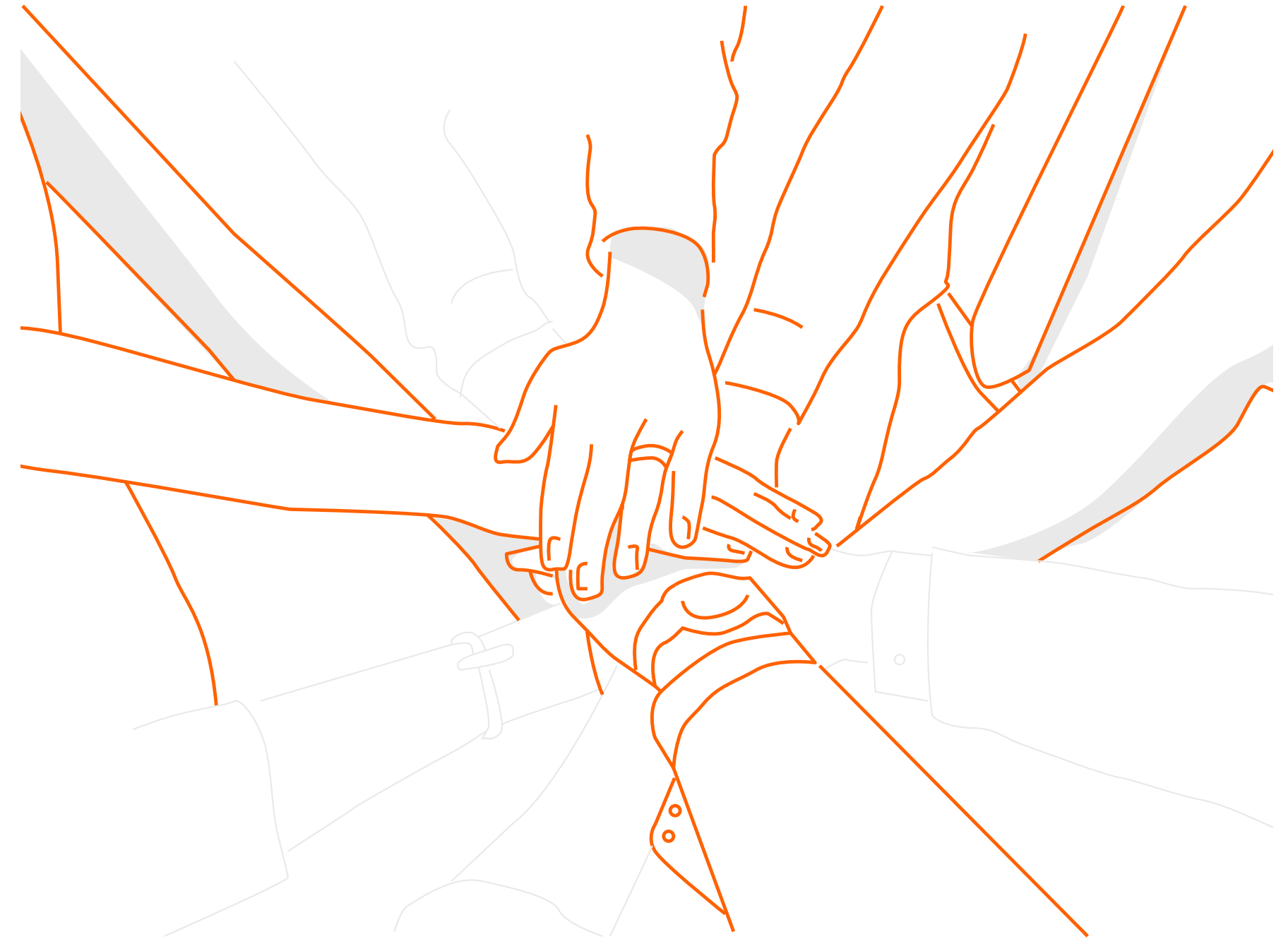


Along with an exploration how to use leverage, we wanted to discuss our salient issues with our clients. This allows us to learn more about our exposure to these (salient issues) through clients and their supply chains, which helps us to apply the UNGPs in a more meaningful way. And lastly, we wanted to build awareness among clients of some key human rights topics which are important to all of us.

Promoting transparency to better understand and manage human rights risks

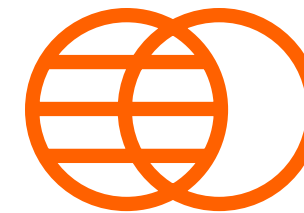
The DBA Increasing Leverage working group (see accompanying [paper](#)) concluded that by communicating the results of successful client engagements, the banking sector as a whole can work on building knowledge and defining best practices. We hope to contribute to this by sharing our engagement programme.

Communicating knowledge is especially important as we reflect on the use of leverage and the role that we play in the market as a financial institution. Proactive engagement is a unique way of learning about and beginning to manage salient human rights risks. As we elaborate in our [2018 Human Rights Report](#), issues often occur in the supply chains of our clients. Given the often complex value chain of clients, tracking and managing these risks and leveraging influence is challenging. We see this proactive engagement exercise as a next step in understanding salience and how to use our leverage. We hope that our clients become aware of salient issues so that they can learn how to best manage them. As engagement progresses, we hope to take concrete steps towards meaningful tracking and managing of these human rights impacts.



We also endeavour to be transparent and allow others to learn about the complex role of a bank, which calls for innovative ways to manage human rights risks. This is why this exercise caters for unique learning, since it is an innovative approach going beyond transaction related risk assessment to proactive human rights engagements.

One aspect of this annual update on engagement is that the names of clients who were engaged specifically for this exercise is confidential. We wanted to first run an exercise focused on open dialogue. At the start of the exercise we were not sure that clients would have an appetite to meet with us on this topic and nor did we know how enthusiastically our own relationship managers would connect the engagement team with corporate clients. We feel that going through the process of approving the publishing of names would formalise our engagements in a way that changes the tone of exploration and mutual learning intended in the exercise. Also, considering the explorative nature of the exercise. Reputational considerations of clients could limit the ability of clients have to speak freely to us in such an informal setting and could be detrimental to both what we learn and what we can publish.



We hope our transparent contribution in this publication will lead to measurable results in advancing corporate respect for human rights.

Methodology

Knowing which clients to engage and how to systematically approach a programme for proactive engagement was a challenging task. We tested, adjusted, discussed and combined data sources in an effort to come up with a meaningful list of clients for engagement, based on our exposure to human rights risks. The map on the next page illustrates the location of the headquarters of clients where the engagements were carried out.



Map of engagements

(based on headquarters location)



Ultimately, our methodology incorporates the steps and outcomes from our human rights salience analysis, as described in depth in our [2018 Human Rights report](#). In order to restrict our list to a manageable number of clients to be engaged in the exercise, we applied some additional scoping in this process. Our process was as follows:

Summarising, in the **first** step, we mapped sector risks which we linked to the clients in our portfolio. This enabled us to produce a long list of clients based on their sector risks and industry classification, knowing that we had covered our entire portfolio. We worked with a specialist human rights consultancy, which advised us on sector-level risk severity (low, medium or high). In addition, we used existing databases such as the one from the European Bank for Reconstruction and Development. We also looked at the likelihood of clients being exposed to potential human rights issues based on industry sector, national and regional human rights laws and governance, clients’ track record and existing risks identified in our general due diligence. This helped narrow our focus. Lastly, we put together knowledge via our internal working groups with members of ING’s Wholesale Banking Lending sectors, Environmental and Social Risk advisors and our Sustainability Department to validate our risk map (for additional information on these teams specific roles please see our [2018 Human Rights report](#)).

Applying our sector classification showed that within our client portfolio, our risk exposure could be classified as follows:

High Risk	Medium Risk	Low Risk
<ul style="list-style-type: none"> Crude Petroleum & Natural Gas 	<ul style="list-style-type: none"> Breweries 	<ul style="list-style-type: none"> Wired Telecommunications Carriers
<ul style="list-style-type: none"> Power Generation and related facilities 	<ul style="list-style-type: none"> Pulp Mills 	<ul style="list-style-type: none"> Marketing Consulting Services
<ul style="list-style-type: none"> Automotive manufacture 	<ul style="list-style-type: none"> Water Supply and Irrigation Systems 	<ul style="list-style-type: none"> Employment Placement Agencies
<ul style="list-style-type: none"> Chemical manufacture (plastics) 	<ul style="list-style-type: none"> Industrial Machinery Manufacturing 	<ul style="list-style-type: none"> Household Appliance Stores
<ul style="list-style-type: none"> Construction 	<ul style="list-style-type: none"> Support Activities for Oil & Gas Operations (includes refineries) 	<ul style="list-style-type: none"> Administration Services and offices, including human resources services, corporate offices, holding companies
<ul style="list-style-type: none"> Mining, quarrying, oil & gas 	<ul style="list-style-type: none"> Freight Transportation 	<ul style="list-style-type: none"> General government activities
<ul style="list-style-type: none"> Electronics manufacturing 	<ul style="list-style-type: none"> Support activities for transportation (includes rail systems) 	<ul style="list-style-type: none"> Financial Investment Activities
<ul style="list-style-type: none"> Food manufacturing 	<ul style="list-style-type: none"> Support activities for food manufacturing (includes dairy and drink industry) 	<ul style="list-style-type: none"> Wholesalers, including stores and dealers

* Please note that this risk classification was only used for the proactive engagement exercise. It does not reflect our Environmental and Social Risk approach. The sectors that are labelled low or medium risk are also subject to a robust due diligence process. Severe human rights risks can occur across sectors. The purpose of this exercise was to understand and prioritise salient risks.

The **second** step was to use an Sustainalytics data to flag the clients in our long list with a track record of unethical or harmful business conduct.

A total of 74 companies, including corporate clients and commodity traders, were selected for further validation with front office staff.

The **third** step was that, the list of clients and the underlying analysis were submitted for validation and an additional check to the respective relationship managers who have most in-depth knowledge about these particular.

In the **fourth** step, we removed clients nearing exit, at the end of financing, or those under a risk review.

We then validated the list with ING's internal Steering Committee for the DBA (see more information in our [2018 report](#)) and came to a final list of 29 clients for engagement, from those 15 clients were commodity traders and 14 corporate clients.

* A specific group in our client portfolio concerns the global commodity houses (also known as commodity traders). Commodity traders were selected as a result of their high-risk profile prompted by their wide exposure to risks throughout the value chain - from production to manufacturing and processing.

Project governance

Since this was the first of its kind for ING, ING's Steering Committee appointed a Global client engagement lead on human rights to conduct the engagements. We appointed a staff member with over 20 years of experience at ING in leading strategic dialogues with clients to take on the first engagement phase. The Steering Committee retained the overall oversight of the engagement process. A human rights engagement was carried out with all 29 clients selected.



“The initiative to engage with our clients on their management of human rights issues was a positive experience. It was informative to see how much progress many of our clients have made on this topic and it has been important to hear areas of struggle and also best practices. Proactive discussions on important topics such as human rights are something clients are open to continue. I believe this mode of using our leverage with clients has been an important experience for all of those involved.”

– Cornelia Goedhuis, former Global lead,
Client engagement on human rights

Our engagement agenda

Prior to tailoring engagement for each client, we developed a consistent engagement framework with questions on human rights policies, risk identification, mapping, track record and salience.

ING's relationship managers approached clients with a set of questions, which included:

- Human rights policy: Has the company adopted a human rights policy?
- Has the company implemented the UN Guiding Principles and how?
- Human rights management: Has the company implemented a system to identify, manage and/or track human rights risks in its operations and/or supply chain?
- ING's salient issues:
 - ✓ **Land-related community issues:** Land-related community issues: Has the company implemented an approach to acquiring land? Does it apply the FPIC principles throughout its operations? Does it offer access to grievance mechanisms for the people affected?
 - ✓ **Harmful child labour through supply chains:** What is the company's understanding of exposure? What are its follow-up actions?
 - ✓ **Forced labour:** What is the company's understanding of exposure? What are its follow-up actions?

The client responses to the questions above have helped us prepare each specific meeting where we additionally took into account:

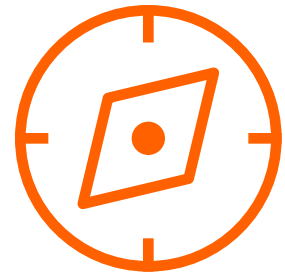
- ✓ client's reporting and disclosures
- ✓ media articles discussing the client analyses and assessments from ESG service providers
- ✓ any additional information from existing and previous interactions, engagements or transactions (managed by the Environmental and Social Risk team)

All this has enabled us to have specific agendas for our clients, but also in the knowledge that we were gathering comparable data from other clients.

Summary of engagements findings

The sections below summarise our engagement outcomes and elaborate on our learning. Our hope is that by being transparent about some of the specific findings, readers will gain an increased understanding of not only the results of our exercise, but also some key concepts such as leverage, salience, and the UNGPs more broadly. We also hope to increase awareness through this publication of topics important to us, such as Free, Prior and Informed Consent (FPIC) and supply chain due diligence.





As mentioned above, we are still exploring precisely how to respond to the findings internally, but we hope that feedback from stakeholders will help us move client engagement and actions forward. At the end of this update we also disclose our proposed methodology for the next steps in proactive engagement.

Overall observations

1

Engagement is welcome across sectors and geographies

One of the first observations from the engagements we took up is that each client responded positively to the opportunity to discuss human rights in an open dialogue. Since engagement had not previously been conducted in this way, we were curious to learn how our stakeholders would respond. Most clients appreciated the fact that we care enough about human rights to engage with them in this way. Clients were generally interested in finding out about our own recent steps on the topic of human rights and learning about our approach to managing salient human rights risks. Many also asked for follow-ups on the topics and an elaboration of salience and other concepts such as policy best practice and FPIC.

> Summary of engagement findings - overall observations

ING hosts a Roundtable with UN High Commissioner for Human Rights and Dutch industry leaders, May 2019. From the left to right: Mercedes Sotoca, Global head of Environmental and Social Risk, ING; Isabel Fernandez, Global head Wholesale Banking and member management board member MBB member, ING and Michelle Bachelet, United Nations High Commissioner for Human Rights.



2

Management approaches and lines of responsibility for human rights differ

During the engagements, we learned that the level of enthusiasm for the topic of human rights impacts varied among clients. Various clients had dedicated personnel dealing with human rights and some included human rights management in their overall sustainability programming. Although not attributable to any sector or company type, we learned that management approaches vary. A potential aspect we could explore when planning the next round of engagements is whether embedding management in a certain line of business is more effective in addressing risks across any particular sector.

3 The UNGP's could help bridge regional differences and multiple frameworks

Clients across sectors generally felt there is a level playing field on the topic of human rights, meaning that human rights performance was transparent across their sector. However, some clients referred to regional differences in stakeholder expectations and also different regional legal frameworks being a of challenge.

Generally, across sectors, clients located in Europe have more robust human rights risks management approaches, meaning their policies are clearer and their reporting lines more elaborate. European clients also tend to consider ethical and long-term potential and actual impacts while clients headquartered for example in North America and Asia often demonstrate a more compliance-driven approach.

Clients in these regions did point to different legal frameworks and different societal expectations as a source of these differences. This is important to consider in our own understanding of clients and our own due diligence process.

4 There is limited consistency in disclosure approaches

Most clients in scope disclosed human rights-related information in standalone sustainability reports or sections in their annual report. However, the level of disclosure maturity varied across sectors. Even in cases of strong reporting, with clear dedication to reporting on human rights, our engagement sometimes revealed gaps in risk management and follow-up.

At the same time, some companies disclosures did not make clear how integration into overall business policy takes place and how strategy is linked to human rights and other sustainability commitments. But, clients could elaborate on their approaches to integration during our engagements. This helped us to know our clients better, and also emphasise the importance of clear and detailed disclosure

Sector-specific findings

In all of the engagements, there were some key takeaways when looking at the conversations at a sector level. A few of these takeaways are:

1 Risk management is more advanced in soft commodity trading

Traders of soft commodities such as cocoa and coffee often encounter environmental and social impacts and issues, and took more action (compared to the construction sector for example) in terms of their human rights risk management practices, including in their value chains. Some were able to elaborate on integration and measurement as well as topics such as policy and reporting lines. Clients talked about years of external human rights scrutiny on the sector, and clear human rights expectations due to the level of risks and violations known in the sectors. As clients had long experienced the business implications of human rights risks, their management of these issues was – commensurate to their size and impact – more advanced.



2

Safety risks considered most salient in the construction sector

Safety risks dominated our engagements with construction sector clients who generally took a compliance approach. Engagement also included a focus on how to apply leverage with contractors and subcontractors. We learned that clients are exploring their own leverage with both subcontractors and in their supply chains, since incidents most often happen within subcontracted parties. This can run deep into multiple tiers of contractors and some clients were thinking about how to enhance their influence on these parties. A potential focus could be to monitor developments in this sector in terms of supply chain influence and due diligence.

3

External stakeholder attention helps move the needle in the mining sector

Among those engaged, mining sector clients had a clear focus on reporting and transparency. Most of this sector's clients had allocated resources to human rights management, which was then reflected in policy governance structures.

Clients in this sector also demonstrated awareness and inclusion of the interests of regulators, NGOs, rightsholders, shareholders and other stakeholders. These stakeholders monitor the sector critically because of the potential severity of risks and mining clients shared how this helps to move the needle in the sector and increase accountability. ING has also learned that strong collaboration builds awareness and triggers action on the topic of human rights, such as through our experience in the DBA. This learning shows that collaboration enhances human rights practices across sectors.

ING Technical ESR site visit in Africa



Client level findings

The section below is a summary of key findings about the clients we engaged. The topics reflect the standard agenda points and also points of discussion that frequently came up in conversation.

Human rights policies

1

The UNGPs and their role in policy development

Most clients stated that norm-setting standards such as the UNGPs were not used to develop corporate sustainability or human rights policies. Although the principles were known, their direct uptake was less clear among clients. In general, ILO standards were referenced more often. We could also gauge from disclosures that policies reflected sector standards which might be broader than human rights, but incorporate the topic. A learning for ING is that it would be meaningful to continue to discuss the UNGPs directly with clients, as they are the norm-setting standard for business and human rights. We hope to focus more on explaining the UNGPs and raising awareness of FPIC (among other topics) in future engagements.

2

Human rights policy integration

Most clients had embedded their human rights expectations in codes of conduct and other policies. In these cases, ING's engagement staff aimed to discuss how this could be improved by including other parties in their policy on human rights (for example contractors). The scope of application in operational codes of conduct does not typically extend to suppliers and contractors. Some clients, however, did elaborate on using leverage by integrating human rights due diligence into supplier questionnaires. We feel that by discussing supply chains we were able to show that financiers are increasingly understanding and looking for supply chain due diligence. We feel we were also able to raise awareness with clients that we appreciate clear information of how screening in supply chains works.

1

Performance indicators on human rights

We received client feedback on the effectiveness of PIs as a measurement of success for human rights performance. Some clients had clear PIs on human rights but many did not have extensive PIs.

In the context of the DBA, ING is involved in a working group titled 'Transparency'. This working group explores meaningful performance indicators for human rights for the banking sector. A future action for us could be to take our experience of performance indicators forward and continue to engage with clients based on what we continue to learn.

2

On the link between transparency and management practice

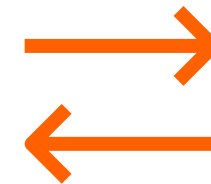
On the topic of transparency and management, one client engaged had a standalone human rights report. The client with the UNGP RF disclosure was a clear leader in understanding and articulating its own human rights impacts.

All in all, we learned that a standalone human rights reporting is not standard practice among the clients engaged human rights can also be integrated in an overall sustainability report or in an integrated report of the client. This also means that transparency about management structures and accountability on the topic of human rights is not standard practice among those engaged. In our own experience of reporting, we have found the UNGP RF to be the most useful tool. A future step could be to articulate even more clearly to our clients how we have used the UNGP RF to go beyond disclosure alone, to drive change, due diligence and progress on human rights.

Supply chain risks

Supply chain risks was a topic raised on the agenda of all engagements. A specific element of this agenda item was how to monitor suppliers. Responses varied among clients.

An interlinked topic is the importance of objective certification in supply chain operations. Clients shared the view that certification schemes and initiatives such as the Roundtable on Sustainable Palm Oil (RSPO) and the Better Cotton Initiative can help drive progress on human rights in supply chains. This feedback helps us to understand how these initiatives feed back into the due diligence of clients.



Dilemma:

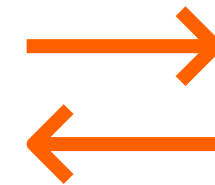
Clients identified traceability as the most challenging aspect of sustainability supply chain management. While consumer demand for traceability is growing, for example in agricultural products, our clients found it challenging to implement and track these. This could be, for example, because commodities are mixed in the standard purification and refinement process. That being said, multiple clients had initiated engagement within their supply chain in an effort to boost transparency and traceability.

> Summary of engagement findings - client level findings

ING Technical ESR site visit in Africa



We can report that all clients engaged recognised the importance of improving their understanding of the human rights risks within their supply chains, yet many struggled to enhance understanding of their leverage beyond Tier 1 suppliers. Clients, however saw the growing demand from external stakeholders for transparent policies, as a change driver.

**Dilemma:**

Clients shared their approaches and challenges in addressing policy non-compliance and shortcomings in human rights due diligence with suppliers. Some were assessing whether ending supplier contracts is most effective, as opposed to a temporary suspension until shortcomings are addressed. A couple of agricultural clients engaged took the same approach that they found that their preferred trajectory, and the one they see most effective in their sector, is to try to engage with suppliers first before ending the relationship. At ING, we tend to take the same approach and it was meaningful to discuss this dilemma with clients.

> Summary of engagement findings - client level findings

Free Prior and Informed Consent (Indigenous peoples)

Free Prior and Informed Consent (FPIC) is an important component of due diligence in relation to land and Indigenous People's rights. It is a principle ING wanted to actively devote time to promoting within our proactive client engagement programme.

1

Awareness and application of FPIC

Only a small number of the companies engaged actively in the application of FPIC. However, clients apply aspects of best practice, including engagement, providing access to grievance mechanisms and resettlement programming based on international norms. Client awareness of the FPIC language and guidelines was low. This was particularly at the corporate headquarter level however and could change if we were talking to project risk managers for example. Financial institutions' engagements often focus on the application of FPIC when providing asset-based lending. This is shown, for example, in how Equator Principles signatories often engage on FPIC. The question to pay attention to here is how, as a sector, banks can raise awareness of FPIC outside of specific project finance transactions. We added FPIC to the agenda of clients by using our leverage proactively during our engagement programme.

Social dialogue and stakeholder engagement approaches

Clients had structural and project or incident-driven methods in place for local community engagements and social dialogues. All clients confirmed that social dialogue was a necessary aspect of due diligence, although not all had implemented policies on the topic. While we cannot conclude sector or regional findings on stakeholder engagement, we found that the methodology for stakeholder engagement and social dialogue had no clear thread across sectors. This is an issue that we need to boost understanding of in the future.

> Summary of engagement findings - client level findings

Salient issues

Our [2018 Human Rights Report](#) is centred around the topic of salience. Salient human rights issues are those issues that, through a company's operations and business relationships, pose the largest risks to people. In our Report, we addressed the following salient issues in our role as a corporate lender:

- **Child labour**
- **Forced labour**
- **Land-related community issues**

For additional context, we encourage readers to carefully read our salience analysis and our understanding of salient issues in the [2018 Human Rights report](#).

What we have learned in the process of using the UNGP Reporting Framework, and our journey since, is that tracking and managing our salient human rights issues in our role as a lender is complex. Tracking, largely explained in part C of the UNGP RF, is an area that we need to develop further in an informed and innovative way. This is because, as explained in our 2018 report, the salient issues we face are often within the supply chains of our clients. Not being able to directly influence these issues makes tracking and assessing impacts a multifaceted challenge.

An illustrative example of our challenges with tracking performance on salient issues:

What if we as a bank see fewer controversies related to the issue of forced labour within our client base (or their supply chains) over time? Could this just be due to a portfolio shift and the nature or location of projects within a given year? Or could this be due to effective action the client or we have taken, or action other lenders have taken with us?

A complexity also lies in the fact that we are rarely the sole lender to any client or project, so that matching our advice, requirements and leverage with the actual outcomes on the ground often remains unclear.

As mentioned, tracking our own management of salient issues takes a lot of thought and innovation. Here are some of the ways we are exploring the management of salient issues in our role as a lender:

One way we are learning about how to manage the salient issues is through the value chain studies of the DBA. In these collaborative studies ING endeavours to understand and research our salient risks by tracking the entire value chain.

But as much as we learn about our exposure to risks, the fact remains that as a lender we remain one, or more steps removed from issues on the ground. One action which we can take in this respect, is to make clients aware of the importance we attribute to human rights and salient issues. How to track, manage and prioritise is not always

> Summary of engagement findings - client level findings

clear (see the examples above), but we feel we can begin to prioritise salient issues through proactive engagement with clients. That is what we have looked at in this exercise. Below are some of the outcomes of salience as discussed with clients:

An initial takeaway is that we discovered the UNGP RF language on salience is not broadly adopted among those engaged. The framework of how salience leads to prioritisation, management and tracking was not well known in these terms. Clients engaged did often use the term risk to business and did understand the differentiation in risks to people. What we learned therefore is that the UNGP Reporting Framework could give consistent terms to concepts and actions linked to prioritisation and tracking.

Outcomes per salient issue:

Land-related community issues

Most clients linked grievance mechanisms and social dialogue as being key to the topic of land rights or land issues.

On this salient issue, we established that clients varied in their specific processes in terms of monitoring and managing the topic. We did find, however, that in the sectors where this salient issue is most likely to occur, such as agriculture and manufacturing, clients could discuss their approach to or understanding of land issues more robustly. Future steps could be to combine this knowledge with DBA value chain outcomes and further discuss the specifics of the salient issue with clients through engagement.



> Summary of engagement findings - client level findings



Child labour

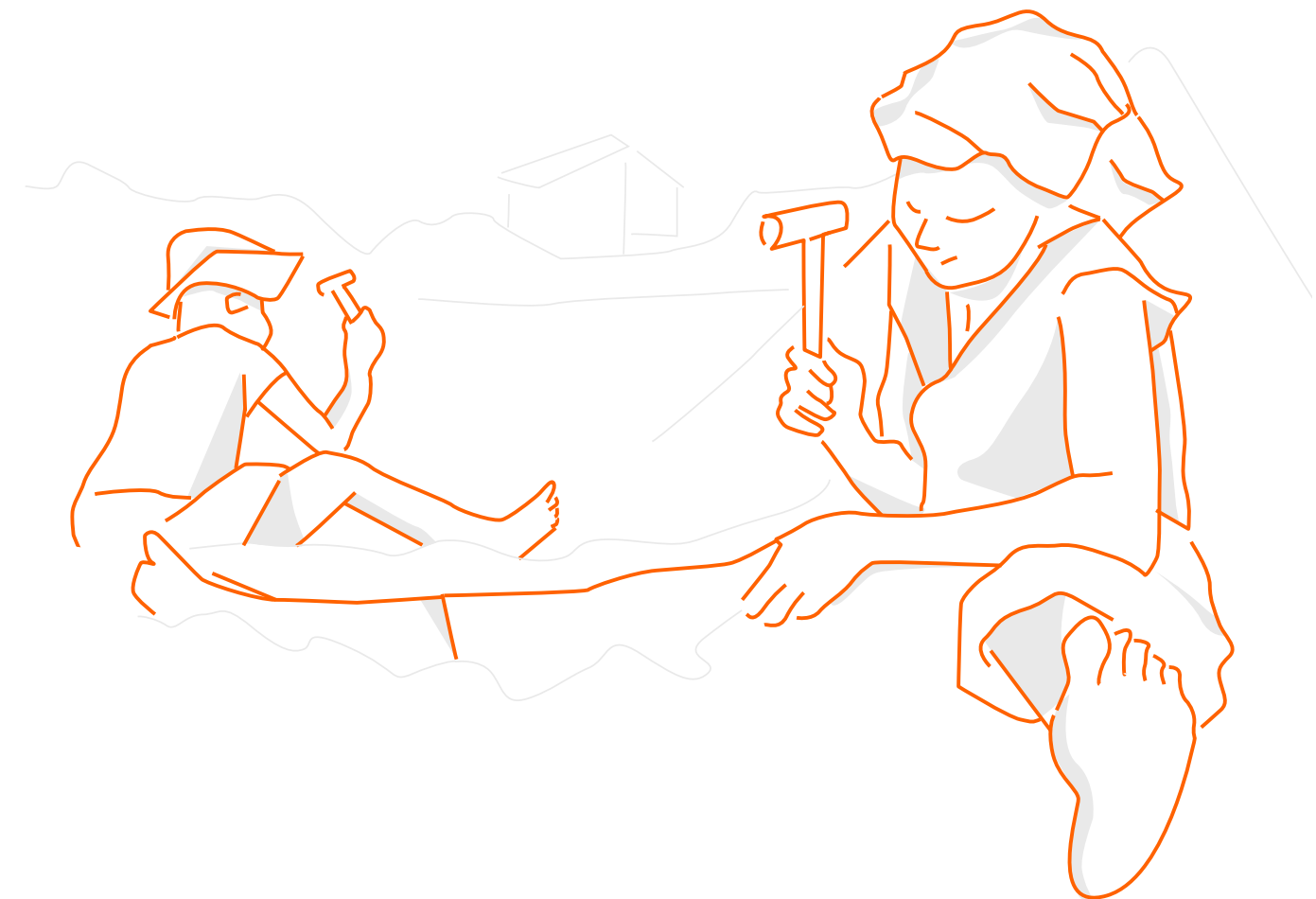
What was confirmed during the engagements is that in most cases this risk falls within the supply chains of our clients. All of the clients engaged on the issue made statements of zero tolerance and yet many knew that in their supply chains child labour in some nations is the norm. As a consequence, they had to create specific programmes to avoid child labour in the supply chain, such as educational programmes and additional incentives to avoid having children working.

Some clients from the agricultural we have engaged with discussed how they take action on the topic of a living wage as a means of tackling harmful child labour. These clients understood the link between earning a living wage in their supply chains and ending child labour.

Forced labour

The most prominent outcome in discussions on this salient issue is how agricultural sector clients have engaged within their suppliers based on the topic. Many have education and training programmes in place and are paying higher wages than is the norm to improve conditions on plantations.

Clients struggled with the right action to take when the issue is discovered. There is a balance between trying to influence and off-boarding companies in their supply chains. As a bank we see off-boarding of our own clients as a last resort. If we no longer have a relationship, we lose the ability to influence clients. We hope to explore further the dilemma of “What to do when supply chain issues are discovered?” with clients so that we better implement joint action plans and improvements.



> Summary of engagement findings - client level findings

By discussing the salient issues we have learned from our clients and have also let clients know that we are prioritising these risks. We will continue to explore this kind of leverage as a mean to managing salience.

Our engagements have taught us that the salient issues are relevant in our client base and their supply chains.

Some clients have more effective management and approaches to the three salient issues than others. As a next step, ING will take this learning forward and continue to increase our understanding of salience, including client exposure and management of the topics.

Recap of learning and next steps

Human rights management and due diligence is a topic that requires continuous learning and action. Apart from the outcomes and findings in engagement outlined above, we have learnt about the role we have in exerting leverage.

We have found that:

- ✓ Face-to-face, non-transaction-based, informal conversations with clients are productive. A flexible engagement setting provided a fertile ground to discuss a host of human rights and related topics. We were not limited to engagement on one issue or one specific recommendation and could raise multiple topics and learn from one another. We feel that both parties have learned in the process.
- ✓ Beyond human rights agenda items, we can improve discussing with clients the role they see for us in steering them to best practices, supporting them and the relevance of our specific role as a lender. We learnt that clients are very open to support and advice from us. It is important to continue exploring how we can work together to advance human rights due diligence. Clients also expressed the importance of clear financial sector expectations. If the sector as a whole for example continued to harmonise expectations, action plans and priority-setting,

due diligence at their end could be done more effectively. We recognise this finding and it helps to validate that our active part in sector initiatives, such as the Equator Principles, is important.

- ✓ This type of proactive conversations improves our client relationships. Proactive engagement has put ING staff in touch with new contacts at our clients. This deepens our client relationships. Normally our front office is in touch with finance teams of our clients. But, in this exercise we engaged with other business lines of our clients and were able to focus on the topic of human rights proactively. This is important in bringing an integrated approach to leverage and engagement.
- ✓ This exercise has enabled us to shift the perception of the clients in scope and set out in a new way that financial capital is not the only capital important to us.

Clients expressed appreciation of our efforts in taking the topic of human rights forward. Both sides often saw further opportunities for future engagement through follow-up advice and shared learning.

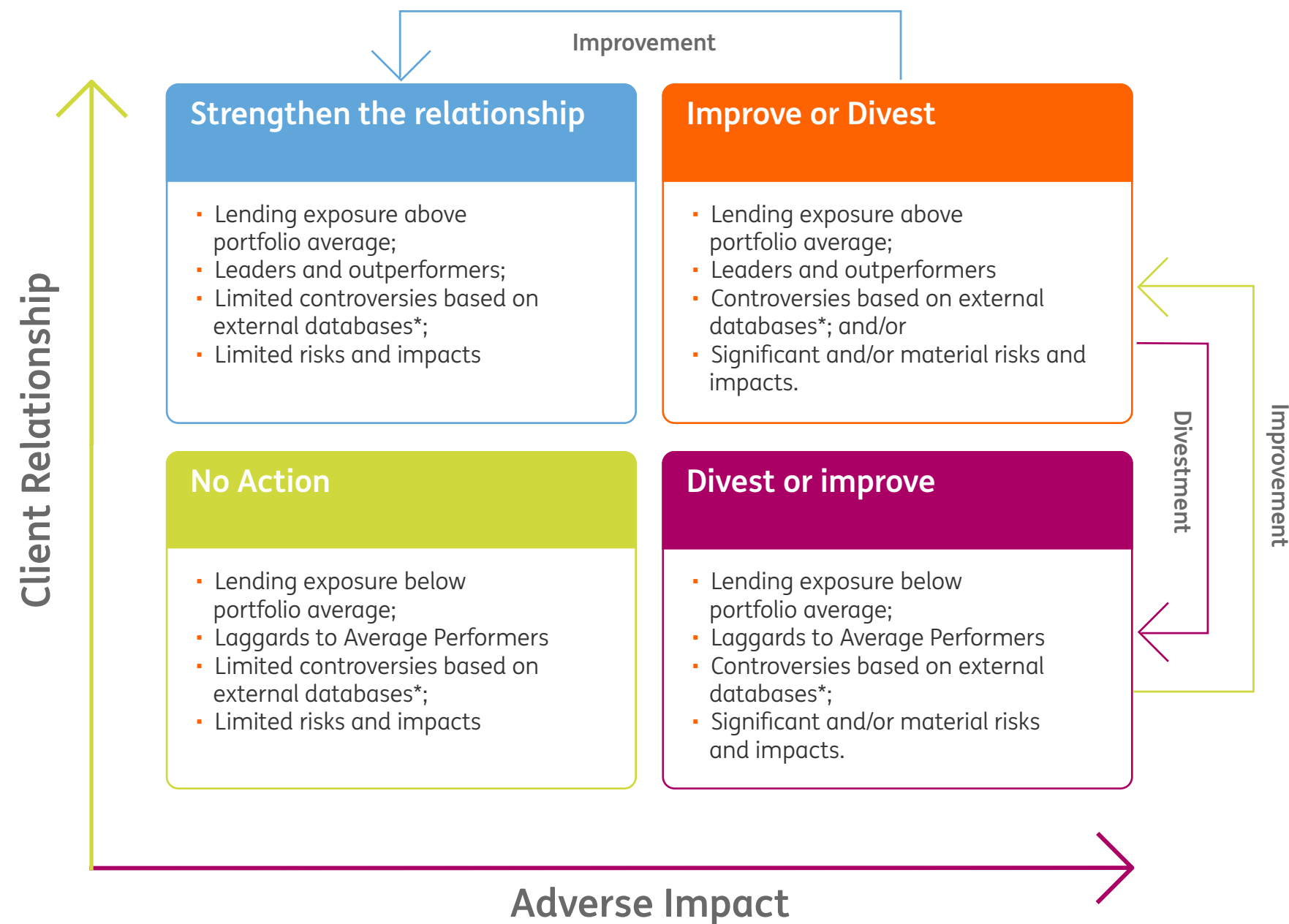
The road ahead

In the coming months, our ambition is to expand the learnings elaborated upon in this human rights update throughout our corporate lending portfolio; extending the scope of our approach to all corporate clients exposed to the most severe human rights impacts. As detailed in our 2018 report, and other publications, we already engage clients when adverse impacts occur. This is done in relation to financial transactions between clients and ING as well as during the regular review of our clients.

With our new approach, we seek to create continuous engagement opportunities on adverse Human Rights impacts, providing another type of leverage beyond a specific transaction or formal client review process. To do this, we will gather data on actual adverse human rights impacts affecting or involving our clients.

Through a process of internal validation, including sign-off from our internal Steering Committee, we have come up with a methodology that we hope will lead us to enhance meaningful engagement with clients on the topic of human rights.

The selection methodology going forward is as follows:



The objective of gathering this data on our clients is firstly to build an ever stronger non-financial risk portfolio. We will use new data points to expand specific knowledge of human rights risks, and it also gives us the opportunity to include other Environmental, Social Risk. With the additional data points and the division on quadrants, it is possible to visualise which clients are lagging behind on different criteria and which clients are top of class. Incorporating data from several data providers will also mean we gather factual information on actual impacts.

This model will assist us in defining which areas and departments of the bank should be included in this exercise, for example:

- If clients come under the Strengthen the relationship area, the Front Office should primarily be involved, as we would like to continue doing more business with these clients.
- If clients are subject to the criteria of the Divestment or Improvement Area, Risk will be involved. A decision will be made about whether or not to divest and off-board this client from our portfolio, if possible or to engage and look into alternative ways of supporting this client to improve its business conduct.

This model was presented to external stakeholders for discussion in a session held at ING's head office. Participating stakeholders, including government representatives, NGOs and trade unions, provided input and feedback on the model and the strategy for next year. The feedback gathered during this meeting was taken into consideration when elaborating on the final model presented. Feedback from participants on the approach envisaged was positive and participants are looking forward to the final results and how they will be implemented in ING's businesses.

We look forward to the road ahead and what it will teach us. We look forward to increased transparency and clearer outcomes in future reports. We also hope that our unique approach to proactive engagement will be replicated by our peers, as working together across the sector is more effective than exerting and practising leverage as a single bank.

Outputs vs. Impact

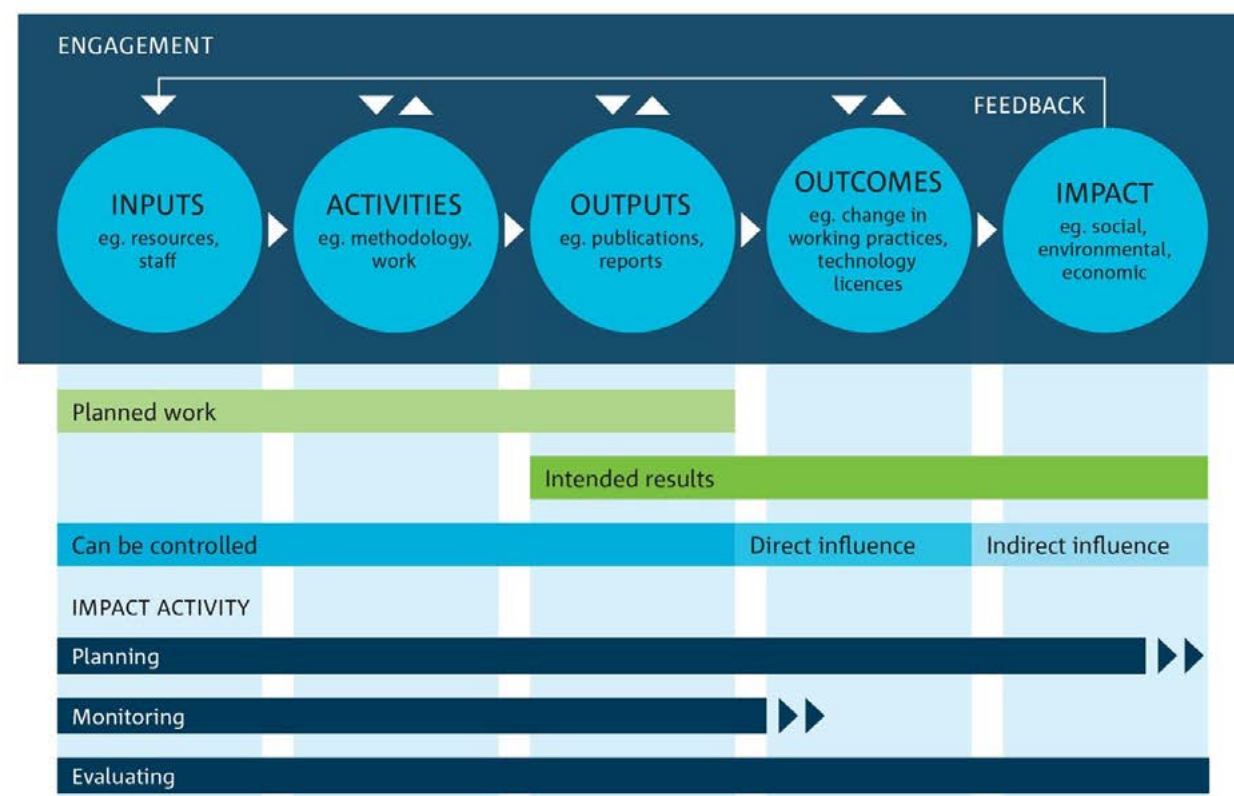
As described throughout the report and also in our seminal 2018 Human Rights Report, there is a difference between the outputs of engagement with our clients, who have a link to rightsholders directly (or indirectly) and the ultimate impact on rightsholders on the ground. In our [2019 ING Terra Progress report](#) we use the model below to describe the difference between portfolio climate alignment and the impact of absolute GHG emissions reduction in the real economy. The model below also displays our understanding of outputs vs impact on the topic of human rights. This model and what it means drives ING's inclusive approach to both climate action and human rights action, inviting others to join us and being open about our efforts.

As mentioned previously, based on our understanding of our role as a lender, ING values an inclusive approach in which we use our leverage with clients to continually improve. But as in our climate ambitions, this approach presents challenges when it comes to measuring and attributing the actual impact on ING's actions.

As we engage with clients to influence their human rights due diligence, ING remains one actor in an ecosystem of influence. Our clients' actions may have been a response to pressure from multiple stakeholders or their own internal decision-making, and therefore attribution to ING's actions can never be precise.

It would therefore be difficult for ING to claim an impact on rightsholders as a result of our efforts alone. This is because our influence is often indirect.

To illustrate this, we use the impact framework developed by the Commonwealth Scientific and Industrial Research Organisation (CSIRO):



Source: <https://www.csiro.au>

Applying the impact framework to ING's efforts to steer towards the goals of Paris:

- ING's **inputs** would be our goal to steer our portfolio towards the well-below 2 degree goal of the Paris Agreement. Further inputs would be the teams, programmes, and tools put in place to achieve this (for example as described throughout this report).
- Our **activities** would flow out of our Terra approach tools and capabilities, through client engagement and deployment of policies and products.
- The **output** would be a shift in our portfolios over time, monitored internally via sector reports.
- The **outcome** of this portfolio shift is that the CO₂ intensity of our sector portfolios should improve over time, reported via the CAD.
- The desired **impact** would be that CO₂ emissions on the ground are reduced.

We hope this model again stresses why ING cannot move the needle of respect for human rights alone. We reiterate a call to action by all, including open, multi-stakeholder collaboration with civil society organisations, other banks, and clear engagement trajectories and reporting among banks on human rights.

Appendix

The UN Guiding Principles Reporting Framework Index

		Pages where addressed
A - Governance of Respect for Human Rights		
A2 Embedding respect for Human Rights	How does the company demonstrate the importance it attaches to the implementation of its human rights commitment?	3, 4, 6-8
	A2.5 What lessons has the company learned during the reporting period about achieving respect for human rights, and what has changed as a result?	9-12; 19-21; 33; 34-36
C - Management of Salient Human Rights Issues		
C2 Stakeholder Engagement	What is the company's approach to engagement with stakeholders in relation to each salient human rights issue?	13-15; 16, 17
	C2.1 How does the company identify which stakeholders to engage with in relation to each salient issue, and when and how to do so?	13-17
	C2.2 During the reporting period, which stakeholders has the company engaged with regarding each salient issue, and why?	15, 16
	C2.3 During the reporting period, how have the views of stakeholders influenced the company's understanding of each salient issue and/or its approach to addressing it?	19-21; 22, 23; 24; 25; 30-32; 33
C3 Assessing Impacts	How does the company identify any changes in the nature of each salient human rights issue over time?	28; 29; 30-33
C5 Tracking Performance	How does the company know if its efforts to address each salient human rights issue are effective in practice?	30-33; 34-36

All data provided in this report are of restricted use of ING Groep and its subsidiaries, unless stated otherwise. Additional information about ING can be found on its [website](#). If you would like to provide feedback on this report or find more information about ING's stance on human rights, please visit our sustainability page at www.ing.com/Sustainability.htm or contact:

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