ING's Green Bond programme

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1. Introduction

ING recognises its role in creating a healthy and sustainable world by means of the choices we make in lending, investing and the services we offer to customers. Through our capabilities within Wholesale Banking we accelerate sustainable transitions to an economy that is low-carbon, resource efficient and environmentally friendly. We strongly believe that sustainable business is better business. Developing a forward-thinking agenda based on sustainability is a priority for us and is increasingly gaining importance for our clients worldwide. We build on more than 20 years of experience in sustainability that have led to a robust, integrated and strategic approach which we call Sustainable Finance.

Our Sustainable Finance program drives and promotes sustainable business opportunities throughout all the different sector and product teams at ING Wholesale Banking. The mainstream global lending portfolio of ING has adopted an inclusive approach that stimulates an acceleration of sustainable transactions within all industries supported by Wholesale Banking, from real estate to renewable energy and from corporate lending to export finance. By focusing on clients who adopt best-in-class sustainable practices to prepare for the scarcity and rising costs of resources and energy, we ensure a healthy and strong portfolio and support tomorrow's economy.

We apply an inclusive approach that covers all of our sector and industry lending clients and projects. However, we selected 6 sectors for inclusion of deals in the Green Bond portfolio. Also, transactions eligible for inclusion are project finance transactions, i.e. standalone financing of assets, projects or acquisitions, where the funds are ring-fenced and will be used for specific and known purposes. Confining eligible loans for our Green Bond to a set of industries and project finance only, allows us to manage it better, increase transparency on results and better assess the positive environmental and social impact of our transactions.

We increase our efforts and capacities in Sustainable Finance with the Green Bond, as it aligns our commercial lending activities with our corporate funding. But it also allows us to build a dialogue with investors about our sustainability strategy and programme and increases internal support for our sustainability approach. Combined with a strong commitment towards reporting, including on positive environmental impact, we find that the Green Bond brings us to a higher level in our sustainability commitment.

2. Categories Green bond portfolio

Our Green Bond is a pivotal element in our sustainable finance approach and allows us to finance and refinance projects that support the transition to a sustainable economy and that have an added environmental value.
The following categories are eligible for the selection of loan assets to be funded through the Green bond.

1. Renewable energy

ING has been active for several years on the transition from non-renewable and often fossil fuel based energy to renewable sources of energy, building a portfolio of renewable energy projects that have the environmental benefits of climate protection due to the shift to less CO2-intensive energy supply. Please see also the Second Party Opinion (SPO) from oekom for more benefits of renewable energy.

Included are loans that have the primary purpose to finance the acquisition, development, building, operating, and/or maintenance of assets that generate energy from the following renewable sources; wind (both onshore and offshore) solar, hydro (only small run of river projects) and geothermal.

2. Green buildings

As roughly 40% of the CO2 emissions is attributable to the built environment, energy efficiency initiatives in Wholesale property offer great potential for CO2 emission reduction. This is especially the case due to the long-term use of the real estate assets. We want to support the transition to a built environment, a building and real estate sector that creates buildings which are energy efficient and provide healthy and safe living.

Environmental benefits of green buildings are among others climate protection, environmental and resource protection due to decreased energy demand. Please see also the Second Party Opinion (SPO) from oekom for more benefits of green buildings.

We include loans in the Green bond portfolio when the primary purpose is to finance the acquisition, development, building and/or refurbishment of commercial real estate (residential, office, retail and logistic sectors) located in important markets in Europe, the U.S.A. and selected Asia – Pacific markets. Each included loan benefits from a certificate with one of the following quality levels; BREEAM (minimum ‘Very Good’), LEED (minimum ‘Gold’), DGNB (minimum ‘Silver’) or HQE (minimum ‘Excellent’).

3. Public transport

The increasing growth and development of urbanised areas requires investments in reliable and sufficient transportation systems, infrastructure and assets. Public transport is an important part of this. We want to support the growth of these areas with the transition to transportation systems that improve living conditions by reducing congestion and emissions. Furthermore, social and environmental benefits of public transport are: climate protection, fuel-efficiency and safety of transport, contribution to dematerialisation (reduced need for private cars in cities), improvement of local air quality and social equality. Please see also the Second Party Opinion (SPO) from oekom for more benefits of public transport.

We include in our Green bond portfolio loans that have the primary purpose of financing the acquisition, production, operating, building and/or maintenance of electric public transport infrastructure, systems, vehicles and assets.

4. Waste management

Increasing population, wealth and consumption will create more waste streams and wasted materials. We want to support the transition towards waste-free world: where waste is not discarded but treated as a valuable resource of materials or energy. Waste management is leading towards this; investing in technology, plants and assets that recycle materials or process in order to reuse it. Environmental benefits are, among others, reduction of need for virgin materials, contribution to dematerialisation, reduction of carbon emissions, landfill and water use. Please see also the Second Party Opinion (SPO) from oekom for more benefits of waste management.

We include loans in the green bond portfolio that have the primary purpose to finance the acquisition, development, operating, building and/or maintenance of assets for the recycling and/or reuse of wasted materials, in all forms and substances.

5. Water management

A key resource for life, which is increasingly under stress, is water. There is on the one hand need for investments in wide access to healthy drinking water and clean water for agriculture, while on the other hand we see more and more need for protection from flooding and rising sea levels. In other words; water can be too little, too dirty or too much. We support the transition towards water abundancy; where communities do not suffer from water issues. Please see also the Second Party Opinion (SPO) from oekom for more benefits of water management.

We include loans in the green bond portfolio that have the primary purpose to finance the acquisition, development, building, operating and/or maintenance of assets for treatment and recycling of water and assets for flood protection.

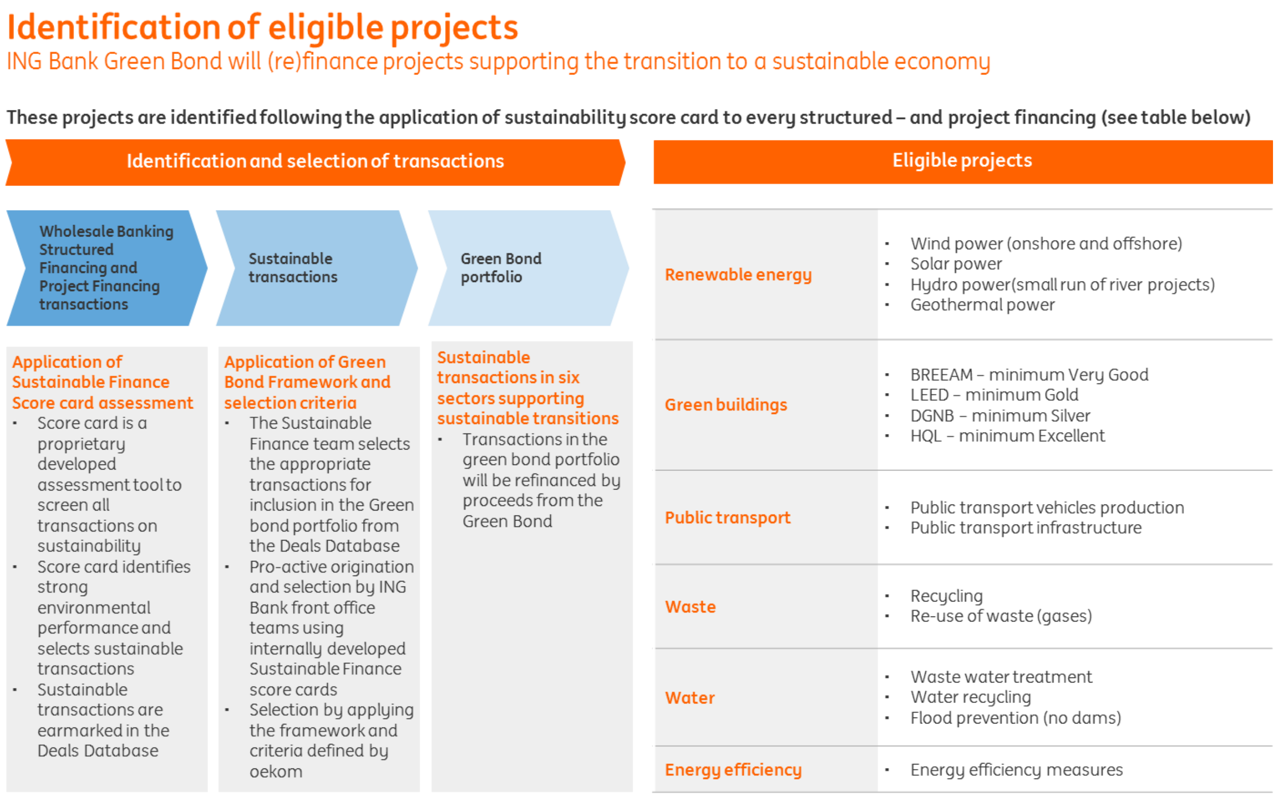
6. Energy efficiency

With the need to reduce the global carbon emissions, a prevailing strategy is to invest in energy efficiency of existing assets. We support the transition to highly efficient technologies and assets. Social and environmental benefits are climate, environmental and resource protection due to decreased energy demand. Please see also the Second Party Opinion (SPO) from oekom for more benefits of energy efficiency.

We include loans in the green bond portfolio that have the primary purpose of financing energy efficiency measures and/or loans which source of loan repayment is savings through energy efficiency measures. We have set the requirement that the measures should lead to a reduction of energy consumption of minimum 30%.

3. Transaction selection process

We use a three step approach to identify eligible sustainable transactions. In a schematic overview:



1. All sector transaction teams within ING Wholesale Banking Lending Services globally originate transactions and use our internally developed Sustainable Finance score card to identify sustainable assets, which – after sign off of a dedicated sector champion – are tagged as sustainable transactions in our Deal Database. This score card is a proprietary developed assessment tool to screen all transactions on sustainability. The score card focusses on the environmental performance of clients and assets in the area of GHG emissions, resource efficiency and waste production. See section 6 for more elaboration on our score card. In line with our Wholesale Banking business, which is a global business, are transactions in all geographies eligible.

2. From the Deal Database the Sustainable Finance team selects transactions that fall within the scope of the Green Bond, applying the Green Bond Framework, developed with oekom. Only project finance transactions are selected, or in other words, transactions where we finance a specific asset, project or acquisition. General corporate financings are not included.

3. We ask an external party oekom to verify that the selected deals are compliant with the Green Bond Framework, after which we add them to the Green Bond portfolio.

We can illustrate this with an example. ING Real Estate Finance participated in a € 534m loan to Canary Wharf Group to acquire a landmark building in the London business area. For this specific purpose transaction, the team checked the approved list of sustainable assets. We consider commercial real estate assets sustainable when given a sustainable building certification, such as BREEAM or LEED. The building was awarded BREEAM Excellent. The transaction was submitted to the Deals Database after approval by the dedicated champion for the real estate sector. The sustainable finance team looked into the details of the transaction and did a first check to see if the asset and transaction meets the criteria of the Green bond Framework, such as BREEAM minimum Very Good, social standards during construction and energy efficiency. This looked positive. We provided deal documents and information to Oekom to verify if this transaction is in line with the Green Bond Framework.

Examples of eligible projects

CANARY WHARF GROUP PLC

- ING participated in a € 534mn loan to Canary Wharf Group to acquire a landmark building in the London business area Canary Wharf
- The building was awarded an excellent green building certificate, in recognition of it meeting best practices in areas such as energy monitoring, water consumption and sustainable procurement

Northwind Offshore Energy

- ING acted as Mandated Lead Arranger to its first offshore wind project financing in Belgium
- Northwind is a 216MW wind farm project located in the North Sea, providing sustainable energy for 230,000 households, cutting CO_2 emissions by 50,000 tonnes annually
- Project costs of €851m are financed 70% by senior debt and 30% by shareholder contributions

WESTERMEERWIND

- ING co-structured the circa €320m long term debt package of the wind farm Westermeerwind. A near-shore wind park in the IJsselmeer (the Netherlands) which, when completed in 2016, will generate enough electricity for 160,000 households a year
- Project costs of circa €400m have been financed by 70% of senior debt and 30% by subordinated debt and equity

Before all these selections, before a team can engage with a transaction, there is a mandatory check on compliance with our Environmental and Social Risk Framework (ESR Framework), ensuring we engage with clients that meet our environmental and social standards and practices. The framework includes several policies: exclusion policies, general policies and sector policies, as well as the Equator Principles, a voluntary statement of commitment by banks to observe certain environmental and social minimum standards in project finance, project finance advisory services, project-related corporate loans and bridge loans.
Please see section 7 for the application and substance of our ESR framework.

4. Management and use of proceeds

The net proceeds of the Green Bond will be used to finance and/or refinance selected project finance loans falling under the global Green Bond Framework developed by ING jointly with oekom Research AG. This global framework covers the six project categories described in section 2 Categories Green bond portfolio.

The lion's share of the proceeds will be used to refinance loans already existing at date of issuance, but we intentionally left an unused portion, with a minimum of 20% of the proceeds, to fund new transactions, that are originated after the date of issuing the Green Bond. For the new transactions which might be allocated to the Green bond, the Sustainable Finance team selects the appropriate transactions for inclusion in the Green bond portfolio from the deals database, using the framework and criteria defined by oekom.

The proceeds that are not allocated yet, i.e. the unused proceeds, will be held and/or invested by ING Bank within a separate account of its treasury department, at its own discretion in cash, cash equivalents and/or other liquid marketable instruments in its liquidity portfolio. Subject to green bonds from other issuers qualifying as liquid marketable instruments in ING Bank's liquidity portfolio, the treasury department might allocate unused proceeds to green bonds of other issuers. This further supports the development of the green bond market, to which we are committed.
Over time, loans will be repaid. Therefore, we will replace, on a best effort basis, assets with other eligible assets in case loans are repaid or in the case when a loan is not eligible anymore.

5. Reporting

We are committed to report annually on use of proceeds in our Integrated Annual Report. Additionally, dedicated Green Bond reporting will be published on our corporate website, ing.com
Reporting will detail allocation of proceeds, total amount outstanding of green bond loans, total amount unused proceeds but also positive environmental impact of the financed portfolio. For the positive environmental impact we will make use of an third party expert to calculate this, using recognized market benchmarks and standards. We commit ourselves to report on the following environmental impact indicators:

- Renewable energy: carbon emissions avoided and total energy produced in kWh
- Green buildings: Annual primary energy consumption in kWh/m2 and annual carbon emissions in kg/m2 compared to local average
- Public transport, Water, Waste, Energy efficiency: ING intends to develop an impact measurement metric for these sectors

Assurance on the reporting will be provided by the external auditor of the Integrated Annual Report.

6. Sustainable Finance Score Card

To guide our deal teams in identifying sustainable transactions, we have developed a score card. The key question for sustainable assessment is; What are we financing? Generic purpose transactions require an assessment of the client on its sustainability performance, looking at policies and environmental performance. Specific purpose transactions require an assessment of the project, asset or acquisition at hand. Such assets can either be pre-classified as sustainable, for instance wind power, or are recognized for an outstanding environmental performance in the areas of GHG emissions, resource efficiency and/or waste production. Here is a schedule further explaining the score card:

Key question: What are we financing?

For financing of **generic purposes,** the client assessment is applicable. For financing of **specific purposes** use a sector scorecard to assess the asset.

Sustainable transactions

Generic purpose

	Sustainable client
Definition	Sustainable clients perform the best in their sector on sustainability and stand out from their peers on environmental performance
Type of transaction	General corporate purpose facilities
Assessment	(I) Assessment of stock-listed clients based on data from an external provider
	(II) Assessment of non-listed clients based on proprietary questionnaire, in addition to ESR screening

Specific purpose

	I Approved sustainable assets/activities	II Outstanding environmental performance	III Social
Definition	Predefined assets that support the transition to a sustainable economy.	Asset or activity with significant environmental benefits, compared to a relative sector benchmark on emissions, use of resource or waste. Benchmarks are developed by sector teams	Asset or activity which supports people in poor countries and vulnerable situations (especially women and children).
Type of transaction	Asset based finance, project finance or acquisition finance.	Asset based finance, project finance or acquisition finance.	Asset based finance, project finance or acquisition finance.
Assessment	Asset assessment via a transaction scorecard. Champion approval needed.	Assessment done by deal team based on sector strategy. Champion approval required.	Assessment done by deal team based on sector strategy. Champion approval required.

Every lending sector team has developed sector strategies, further defining their approach to identify sustainable assets. For instance, our teams financing real estate have set criteria based on real estate certificates such as BREEAM and LEED, while our teams financing ships, use an external database with data on energy efficiency and GHG emissions to determine which shipping assets are labelled sustainable.
Appointed sector champions check the correct application of the score card, after which the transaction is recorded in our Deal Database and flagged as sustainable. The Sustainable Finance team selects from these deals the loans that are compliant with the Green Bond Framework and ask an external verification on this selection, after which the loans are added to the Green Bond portfolio.

7. Environmental and Social Risk Framework

We integrate sustainability considerations in our business strategies and actively manage social and environmental risks from our business engagements.
An integral part of our transaction and know-your-client due diligence is the application of our Environmental and Social Risk (ESR) Framework. Our ESR Framework applies to all business engagements and has been developed to ensure informed decision-making to provide responsible financial services.
Before identifying sustainable assets, we apply the ESR due diligence. In the case of transactions selected for the Green Bond portfolio, the Equator Principles are applicable as we only include project finance transactions in scope of the Equator Principles.
See below an outline of our ESR Framework and its application, an important building block for our sustainable finance approach.

ESR Policies

Human Rights: ING respects human rights and can contribute to the promotion of human rights within its sphere of influence. This is guided by the standards established in the Universal Declaration of Human Rights; the eight Fundamental International Labour Organisation Conventions ('ILO Conventions'), and the UN Global Compact. No financing is allowed for activities in violations of these elements.

Environmental Management: ING supports the protection and preservation of the environment by promoting good environmental practices through the application of our ESR policies.

The ESR **Exclusion Policies** restrict certain activities in the following areas:

- Animal welfare
- Defence / Controversial Weapons
- Energy

- Fisheries
- Forestry and Agrocommodities
- Gambling
- Genetic Engineering
- Manufacturing
- Mining
- Pornography
- Protected areas
- Ship breaking

ING has also developed an ESR list of **companies restricted** for business engagements. This list is applied across the whole bank. The list is used to screen-out pre-defined engagements with restricted companies.

Sector Policies: some sectors are more likely to be associated with environmental and social (E-S) risk and impacts. ING assesses clients operating in these sectors by investigating how they manage the environmental and social issues associated with their business activities. This assessment is benchmarked against the industry standards relevant for the industry sector the company operates in. These industry standards take into consideration E-S international standards and related best practice guidance. The ESR Sector policy covers the following sectors:

- Animal Husbandry;
- Chemicals;
- Defence;
- Energy (Oil and Gas, Coal and Power Generation);
- Forestry and Agrocommodities;
- Manufacturing; and
- Mining and Metals

When financing projects, ING applies the **Equator Principles**. The principles impose compliance with applicable E-S Standards and regulations (the local ones if the asset is located in high income OECD countries, the IFC Performance Standards and World Bank EHS Guidelines when the asset is located in non-high income OECD countries) during the construction, operation and decommissioning of the assets.

When the asset financed is expected to produce significant E-S impacts, ING may engage an **independent third party** to perform an environmental review of the project. Where such review is performed, financing is allowed when the results of the due diligence confirm compliance with applicable (local and/or international) regulations.

<u>Process and Governance</u>
The application of the ESR Framework requires the involvement of:

- Front Office – the departments which have direct client contact and originate transactions (leading to potential Environmental & Social risk);
- Risk Management – the departments which provide control over the Front Office activities; and
- Environmental and Social Risk Team – the department specialized in the application of E-S due diligence of the transactions proposed by Front Office

ING screens both the “client” and its “transaction” with the client. The client due diligence is performed as part of the client on-boarding process or periodic review.
Front office checks whether the client activity complies with the ESR policy framework (client assessment), consisting of the Human Rights and Environmental Management policy; the Exclusion and the Sector Specific policies, described below in more details.

An ESR transaction assessment is performed to understand the associated environmental and social risks. The nature of the engagement will determine the depth of the ESR due diligence for that specific transaction. For example, for a client that approaches ING for generic payment and cash management services, the ESR due diligence is based mainly on the client ESR client assessment. For other financial services (like lending) the ESR due diligence is based on the ESR client assessment, but also on the capacity and performance of the client to manage environmental and social risks associated to the lending facility. The combination of client and transaction assessment gives the overall ESR level of the business engagement:

Transaction ESR Performance	**Client ESR Performance**			
	Sustainable / Low Risk	Normal risk	Increased Risk	Unacceptable
Transaction Low Risk	ESR Low risk	ESR Low risk	ESR Medium risk	Unacceptable
Transaction High Risk	ESR Medium risk	ESR High risk	ESR High risk	Unacceptable
Unacceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable

The outcome of the ESR assessment determines whether the engagement carries “high”, “medium” or “low” risk under the ESR Policies. In case of low-risk transactions, Front Office and Risk Managers proceed with the engagement. However, if the transaction is considered to be “high risk”, a further ESR assessment is undertaken by our dedicated ESR team. This may result in a positive advice, a positive advice with conditions set, or a negative advice, which can only be waived by ING’s highest credit committee or the Executive Board. In practice such waivers are exceptional.