



# ESG at BNG Bank

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Driven by social impact

# Inhoud

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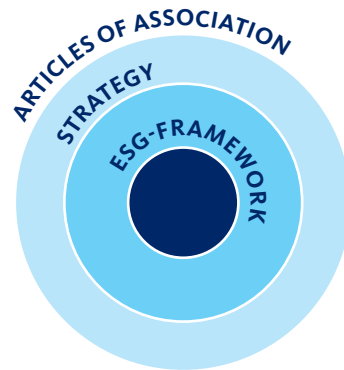
## 1 BNG Bank: driven by social impact

For more than 100 years, BNG Bank has been the bank of and for the public sector, as outlined in its Articles of Association. One of its primary motivations is to create social impact based on three core values: sustainability, reliability and professionalism. The bank strives to be a natural partner for its customers for resolving social issues.

BNG Bank provides services to its customers within its strategic framework, which has been developed based on four strategic spearheads: focus on the public sector, increase customer partnership, excellent operational practices and strengthen the organisation. The bank stays close to its roots, namely, the Dutch public sector. Besides public authorities, this also includes organisations that perform a public task, such as housing corporations, health care and educational institutions, as well as organisations of which half or more of the share capital is provided by the government and/or activities for which the government provides 100% guarantee.

Externally, BNG Bank works on building strong customer relationships by focusing on the public sector and by positioning itself as a reliable partner for its customers. Internally, the bank lays emphasis on developing a strong internal organisation by ensuring that the right people are in the right place.

This publication explains how the bank implements its strategy and business activities.



## 2 Demonstrable social impact

BNG Bank has not the aim to maximize its profit. Of course, the bank strives to achieve a healthy return, so that it can expand its activities, absorb financial setbacks and pay dividends to its public shareholders. Due to the public nature of its shareholders, the dividends paid out are used once again for the benefit of the public sector.

According to BNG Bank, its primary task is to make a positive social impact. As part of its focus on customer partnerships, the bank assists its customers not merely by granting loans but also by actively contributing to their business as an expert and sincere partner.

To demonstrate this more clearly, the bank tries to make its social impact measurable. The impact is measured and reported, and the results are used to adjust the

course of the strategy, where necessary. The results are discussed and shared with the stakeholders.

BNG Bank makes its impact measurable based on the Sustainable Development Goals (SDGs) of the United Nations. To start with, four SDGs have been chosen, representing the areas in which the bank wants to make a difference. A methodology has been developed which is based on the objectives associated with each of these SDGs and which is appropriate to the bank's activities and role. The bank reports on this in its Annual Report.

By far the largest share of its funding is obtained through public offerings on international money and capital markets. The bank does not provide any retail banking services.

### GOOD HEALTH AND WELL-BEING:

- BNG Bank contributes to affordable health care for everyone.
- BNG Bank is a partner in improving sustainability of hospitals and other health care facilities.



### SUSTAINABLE CITIES AND COMMUNITIES:

- As a partner of social housing associations, BNG Bank contributes to better and liveable communities.
- As a partner of municipalities,

BNG Bank contributes to affordable and better social provisions.



### QUALITY EDUCATION:

- BNG Bank contributes to affordable and high quality school buildings.
- BNG Bank is a partner in improving sustainability of schools and other educational buildings.



### AFFORDABLE AND CLEAN ENERGY:

- BNG Bank contributes to a larger share of renewable energy in our energy mix.
- BNG Bank contributes to energy savings and more energy efficiency.

### 3 Environment, Social and Governance

BNG Bank performs its activities with respect for the environment, with attention for human beings and in an honest and transparent manner. It does this by linking the three dimensions of the ESG model to its main activities:

#### > ENVIRONMENT

- Lending
- Funding
- Internal business operations
- Employees

#### > SOCIAL

- Lending
- Funding
- Internal business operations
- Employees

#### > GOVERNANCE

- Lending
- Funding
- Internal business operations
- Employees

#### 3.1 Environment

##### 3.1.1 Lending

In 2019, BNG Bank made a commitment to achieve the government's climate targets. The bank reports on the climate impact of its loans on its website ([www.bngbank.nl](http://www.bngbank.nl)) and in the Annual Report. The bank is a member of the Partnership Carbon Accounting Financials (PCAF) and applies the PCAF methodology. By 2022 at the latest, the bank will have drawn up an action plan for reducing the carbon footprint of its loans. The bank will report on this plan and the associated results in the Annual Report.

BNG Bank makes the greatest impact by providing recourse financing to municipalities and corporations to

help them make their assets more sustainable. In addition, there are many smaller project-based initiatives in the area of energy generation. Many of these have a limited need for financing. Within the regular procedures, it is difficult to provide this kind of financing in a cost-efficient manner and these projects often fall outside the scope of the bank's strategic framework. For this reason, BNG Bank has set up the BNG Sustainability Fund (BNG Duurzaamheidsfonds) to finance business initiatives that contribute to the sustainability targets of municipalities and provinces. The BNG Sustainability Fund reports independently on its activities and its financial and non-financial results.

##### 3.1.2 Funding

Besides offering opportunities for investors to invest in bonds linked to the general social impact of municipalities and corporations, the bank also has the option of issuing so-called 'green' bonds that are linked to a specific project relating to the energy transition. The bank occasionally issues such bonds.

##### 3.1.3 Internal business operations Energy consumption

The bank wants to keep its environmental footprint as limited as possible. Therefore, it tries to meet its energy needs by purchasing certified wind power generated in the Netherlands and via its own solar panels. For heating, the bank uses district heating. The bank does not consume any natural gas at its offices. A major renovation will be carried out to further improve the energy label of the office building, taking it from A to A++.

The aim is to reduce energy consumption in line with the commitments made in the Paris Climate Agreement. The bank amply offsets the gross carbon footprint of its business operations through socially sustainable energy projects. The Annual Report provides information on the energy consumption and gross and net carbon emissions of the bank.

##### Waste policy and the circular use of resources

The bank segregates its waste. It also periodically assesses whether and how its residual waste can be further segregated and processed.

## Mobility

The mobility policy is aimed at reducing carbon emissions from fossil fuels. Travel by public transport is encouraged. Users of leased cars may temporarily (for holidays) use a larger car, so that regular business trips can be made with a smaller, more economical car. An electric car may also be made available for temporary use, in case of long delivery times of the desired electric car. Flying is limited to strictly necessary long-distance trips. For distances less than 700 km, the train must in principle be used. International contacts are maintained digitally as far as possible, in order to keep the number of flights to a minimum. For national contacts as well, it is always considered whether a physical meeting actually offers any added value as compared to a remote meeting.

## Suppliers

BNG Bank largely procures its supplies from Dutch suppliers who are subject to Dutch laws and regulations. In the procurement policy, procurements are aligned to actual use and a good balance between environmental and economic interests is striven for. Suppliers are required to meet sustainability performance standards, either via external certification (ISO 14001 or EMAS) or an assessment. Given the size of the organisation, the amount of expenditure on procurement activities is limited in absolute terms. The bank's procurement policy is published on [bngbank.nl](http://bngbank.nl).

## 3.2 Social

### 3.2.1 Lending

The bank focuses on the public sector in the Netherlands. Besides public authorities, this also includes organisations that perform a public task, such as housing corporations, health care and educational institutions, as well as organisations of which half or more of the share capital is provided by the government and/or activities for which the government provides 100% guarantee.

The institutions eligible for financing are determined based on the framework laid down in Article 2 of the Articles of Association. In addition to this framework, the bank has also formulated a number of general exclusion criteria (see box). These restrictions reduce the likelihood of loans that involve a high level of risk in terms of the environment and human rights.

#### *Excluded sectors:*

- Exploration and/or extraction of new coal, oil and gas reserves
- The fur industry
- The tobacco industry
- The arms industry
- Parties which, at the time of the loan application, are listed on the Dutch Authority for the Financial Markets' 'Indicative exclusion list for cluster munitions', and parties that are part of the same economic entity as such parties. The same applies to projects in which products are purchased from these parties.
- Pornography
- Gambling, with the exception of organisations that devote a majority of their net income to supporting social organisations and activities.
- Animal testing (unless required for medical purposes)
- Factory farming – intensive livestock farming in a very small space

#### *Excluded ways of acting:*

- Corruption, fraud, infringement of codes of ethics
- Inadequate corporate governance
- Structural human rights violations
- The use of child labour
- Structural infringement of environmental laws and regulations
- Structural employment law and workers' rights violations
- Structural violation of international laws and conventions.

### 3.2.2 Funding

BNG Bank offers investors the opportunity to invest in the sustainable activities of its customers via the Sustainable Bonds for Municipalities and Social Housing Bonds. The Sustainable Bonds for Municipalities are linked to the positive impact of municipalities on society. The Social Housing Bonds have a similar link to the positive impact of housing corporations on society. The bank aims to gradually increase the issue frequency and scope of its Sustainable Bonds for Municipalities and Social Housing Bonds.

To promote sustainable capital markets, BNG Bank collaborates with the Government Pension Investment Fund (GPIF) in Japan, the largest pension fund in the world. The sustainable bonds issued by BNG Bank provide GPIF's asset managers the opportunity

to contribute to a sustainable society, while this collaboration also enables BNG Bank to increase its social impact.

### 3.2.3 Internal business operations

#### Suppliers

The bank offers its suppliers the opportunity to employ disadvantaged employees, who face difficulties entering the regular labour market, for the contracted activities.

#### Sponsorship

In 1964, BNG Bank set up the BNG Culture Fund (BNG Cultuurfonds), which aims to promote activities in the field of art and culture that are of significance for municipalities and municipal policy. Moreover, it encourages young talent by awarding prizes for achievements in the field of theatre, literature, youth circus, visual arts and dance. There is also an annual award for municipalities in the area of cultural heritage.

### 3.2.4 Employees

The key elements of the HR policy are long-term employability, mobility, diversity, flexibility, responsible remuneration and employee development. The HR Policy specifies how the bank intends to offer equal opportunities to everyone, irrespective of religion, gender, origin, orientation or nationality. The bank wants to offer its employees a safe and healthy working environment. There are confidential counsellors within the bank with whom employees can discuss any undesirable situations. In addition, the bank has drawn up whistleblowers regulations to ensure that alleged misconduct can be reported anonymously. Freedom of association is enshrined in Dutch law; the bank encourages trade union membership by providing a tax-efficient scheme for trade union membership fees.

#### Training

Development objectives and the desire and ambition to follow training courses are discussed during the periodic development interviews between managers and employees. Employees are encouraged to undergo training through a favourable compensation scheme for company-relevant training courses. The bank believes this is important for ensuring a proper career progression and for preparing employees optimally for any new steps they may take in their career, both within and outside the bank. Wherever possible, the bank offers opportunities for work placements.

#### Homeworking policy

Employees are offered the option of working partly from home, in consultation with their manager. This gives them the opportunity to combine work with their personal life as they see fit. If an employee has special circumstances that affect his or her employability, HR tries to find a tailored solution in consultation with the manager and employee.

#### Employee satisfaction

The bank regularly conducts surveys on employee satisfaction and commitment to work. The results are used to adjust the policy where necessary.

#### Health

The bank has set aside a mobility budget that can be used for contributing towards the membership fees of sports clubs, for a discount on gym membership fees and for various courses in the area of mental well-being. In the unlikely event of a long-term sickness, the bank's Occupational Health and Safety Service will investigate the employee's health situation after six weeks. Based on this, a plan of approach for returning to work will be drawn up in consultation with the employee. This plan may be adjusted if the situation so requires.

#### Other

With respect to parental leave and maternity leave, the bank adheres to the Collective Labour Agreement for the Banking Sector (CAO Banken). This includes a scheme for maternity leave and parental leave that are over and above the statutory minimum.

The bank periodically offers employees the opportunity to undergo an independent health check. Based on this, the employee is advised, if necessary, on how to improve his or her health.

The bank encourages its employees to do voluntary work, through which they can contribute to society. An example of this is the 'Bank in Front of the Class' (Bank voor de Klas) project, where employees give guest lectures to children from the highest years of primary school.

### 3.3 Governance

BNG Bank follows the corporate governance principles as formulated in the Dutch Corporate Governance Code of December 2016. The regulations, codes, schemes and reporting procedures used at BNG Bank are consistent with the Code. Any deviations from the Code are explained in BNG Bank's Annual Report in accordance with the 'comply or explain' principle. Reports concerning the bank's compliance with the Corporate Governance Code are published on the website: <https://www.bngbank.nl/-/media/Project/CBB/BNG-Bank-NL/Documents/Over-BNG-Bank/Regelingen/Verantwoording-Corporate-Governance-Code.pdf>.

The bank does not make any donations to political parties. The bank does not cooperate in any manner in structures set up for the purpose of avoiding or evading taxes.

#### 3.3.1 Lending

##### Customer Due Diligence (CDD) policy

The generic CDD policy is aimed at customers of the bank to whom loans are provided, parties from whom interest-bearing securities are purchased for the liquidity portfolio, and financial counterparties with whom derivative transactions are entered into in order to ensure the maximum possible cover for loan portfolio risks. The procedures set out in the Customer Due Diligence policy are always followed before entering into a transaction with a new customer.

The CDD investigation is carried out according to a risk-based approach, i.e. if potential integrity risks are identified, a more extensive/stricter customer due diligence is required. Based on this investigation, the customer is assigned to a particular risk category. The higher the risk category, the more intensive the control measures to mitigate the risks to an acceptable level. Existing customers are reviewed periodically at a frequency depending on the defined risk category. Certain events may also prompt a review or a repeat of the due diligence process, if necessary.

##### Equator Principles

The Equator Principles are applied to project financing. In this context, customers who avail of this kind of financing must report annually on how their project complies with the Equator Principles or ensure that such a report is drawn up.

For the financing of export credits covered by a Dutch government guarantee, the CSR analysis by Atradius must be taken into consideration. This assessment is performed based on OECD guidelines, labour standards from the International Labour Organisation (ILO), and the principles of the UN Global Compact. Even if the outcome of this analysis is positive, the bank may independently decide not to refinance these export credits, unless BNG Bank is acting as a funder designated by the Ministry of Finance (CIRR funder).

##### Duty of care

The duty of care to act in the customer's best interest is a priority in the provision of services. Accordingly, BNG Bank strives to offer straightforward and transparent products that meet the needs of its customers and where the associated risks are clearly visible to customers. Considerable attention is paid to informing customers in a clear and concise manner and warning them of the risks attached to certain products. BNG Bank has a product approval process for the development of new products and periodic evaluation of existing products. The various departments within the bank, i.e. Public Finance, Compliance and Legal Affairs, are responsible for specific parts of this process.

#### 3.3.2 Other exposures

BNG Bank maintains a portfolio of highly liquid securities to ensure that it is always able to meet its obligations. The majority of these securities consist of loans from national governments and supranational institutions within the EU, as well as the national governments of Switzerland, the US, Canada and Australia, all of which have a high credit rating. In addition, the bank also holds a limited number of negotiable RMBSs and covered bonds backed by home mortgages. There is no direct contact between the issuers of the securities and the bank. No securities are purchased from governments or institutions with a high risk level in terms of governance or environmental aspects.

#### 3.3.3 Funding

##### Long-term funding

The bank procures its funding from reputable institutions (investment banks) that are supervised by local regulators. This is essential to ensure that the bank's sizeable offerings are successfully placed. These investment banks assess the counterparties based on their Know Your Customer and CDD policies. BNG Bank securities can be



traded on the stock exchange. There is no direct contact between the bank and the purchaser of the bonds. The bank has no influence over the ownership of bonds and has no knowledge of the current bondholders. However, certain capital market facts known to the bank are published on [bngbank.com](http://bngbank.com). The bank fulfils its supply chain responsibility by informing potential investors at the time of issuing bond loans, as stipulated under the transparency requirements in the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft). A limited proportion of our long-term funding requirement is provided by private placements. Here too, there is usually no direct contact between the bank and the investor and reputable institutions are used for this purpose. The same procedure as for issues is applicable to the Know Your Customer process and the investigation under the CDD policy.

### Short-term funding

The bank provides for part of its short-term funding requirement by accepting deposits (predominantly from central banks) and via transactions with financial institutions.

These fall under the bank's Customer Due Diligence policy. This policy is based on the ethical business practices requirement stipulated in the Financial Supervision Act, the Dutch anti-money laundering legislation and the International Covenant of Human Rights. Hence, any countries and parties subject to internationally agreed sanctions are excluded. These parties are assessed based on the exclusion list. Any existing positions will be wound down as quickly as is reasonably possible, if any sanctions are imposed or if the bank decides after further consideration that a party should be excluded based on the exclusion list. Besides the exclusion of parties based on internationally agreed sanctions, the bank will review the current human rights situation in certain countries on a case-by-case basis, in the event of proposed activities in those countries in the context of funding or transactions with financial counterparties. Based on this review, it may refrain from the proposed activities even if no international sanctions have been imposed.

### 3.3.4 Internal business operations Suppliers

The bank's exclusionary provisions are also applicable to suppliers. We hold regular discussions with suppliers to find out how they have set up sustainable practices and how they ensure that human rights and sustainable

practices are safeguarded within their supply chains. If it comes to the bank's notice that its sustainability principles have been breached, it will consult the supplier to try to find a satisfactory solution. If it is not possible to find a solution, the bank will terminate its relations with that supplier.

### 3.3.5 Employees

Expert and committed employees are crucially important for the performance of the organisation. BNG Bank applies a zero-tolerance policy in cases of actual or attempted bribery and corruption, regardless of the beneficiary. Employees must act ethically and with integrity.

On commencement of employment, particular attention is paid to employee and executive integrity. All employees undergo the Pre-Employment Screening process before they are hired. At the time of joining, new employees are provided with a copy of the BNG Bank Business Code, are required to take the oath or make a solemn affirmation specific to the financial sector and are required to submit a Certificate of Good Conduct. The bank has procedures in place to prevent and detect bribery and corruption. Internal rules of conduct to avoid conflicts of interest include rules for accepting and giving business gifts and rules for entering into private transactions with suppliers.

More information on the relevant regulations can be found at <https://www.bngbank.nl/Over-BNG-Bank/Organisatie-en-bestuur/BNG-Bank-Bedrijfscode>.

Employees, managers and Executive Committee members do not receive any variable remuneration. The Remuneration Policy is published on [www.bngbank.nl](http://www.bngbank.nl).



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