



BNG Bank sustainability policy

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BNG Bank is a trade name of BNG Bank N.V., with its registered office in The Hague, Chamber of Commerce no. 27008387

INTRODUCTION

Who we are

BNG Bank is a committed partner for a more sustainable society. We enable the public sector to achieve socially relevant objectives. We are the biggest lender to the Dutch public sector, using money sourced from international money and capital markets. We operate out of a single site in The Hague, with a workforce of around 300 FTE staff.

Sustainable, reliable and professional – these are BNG Bank's core values. Please find an explanation of our mission statement, our strategy and the resulting objectives on bngbank.com. This document sets out how the bank gives shape to its core value of 'sustainability'. The sustainability policy was discussed by the Sustainability Committee and approved by the Executive Board. The external KPIs relating to sustainability that are included in the bank's management report are audited by the external auditor, and a report is provided to the Supervisory Board. Achievement of the internal KPIs is discussed in the quarterly meetings between the Executive Board and the relevant managers.

OPERATING SUSTAINABLY IN THE VALUE CHAIN

BNG Bank helps its customers achieve their objectives for a future-proof society. Sustainable business practices also form a key starting point for BNG Bank's own activities. Given its public role, BNG Bank aims to achieve responsible growth. Conventions relating to human rights, the rights of minorities and workers' rights provide a framework for the bank's activities.

Our approach to sustainability is based on the people-planet-profit principles set out in the 1987 Brundtland report entitled 'Our Common Future', which were translated into the 17 Sustainable Development Goals of the United Nations:

An activity is considered sustainable if it contributes to a positive long-term overall impact in the ecological, socio-cultural and economic domains.

The role of BNG Bank in promoting sustainability

Based on its mission, the bank has the biggest impact in the area of sustainability by providing balance sheet financing to local authorities, housing associations and healthcare institutions. Because the bank provides financing at very competitive rates, these customer groups have more room in their budgets to achieve their objectives. As well as balance sheet financing, the bank also provides financing to specific projects, particularly to institutions in the healthcare and education sectors and in the energy transition and infrastructure spheres.

We proactively consult with customers to improve their sustainability and that of our loan portfolio:

- a. With regard to balance sheet financing, we do so by sharing knowledge and providing innovative solutions that encourage and support customers, among other things.
- b. With regard to project financing, we perform a sustainability analysis of each loan application and, if necessary, prioritise lending for the most sustainable projects.

- c. BNG Bank has set up the BNG Sustainability Fund to help implement small-scale sustainable projects.

Our aim is to improve the sustainability score of our loan portfolio, based on our definition of sustainability, and to reduce the CO₂ impact of BNG Bank's credit portfolio, in line with the reduction target in the Paris Climate Agreement.

- Based on our definition, the research firm Telos has ranked our customers on a large number of economic, social and environmental criteria. Based on this, we calculate a 'sustainability score' for our portfolios 'Local authorities', 'Housing', 'Healthcare and Education' and 'Project Financing'.
- As from 2019, we will measure the CO₂ impact of our loan portfolio, using the [Platform for Carbon Accounting Financials](#) (PCAF) methodology.
- Using 2019 data as a baseline, we will publish developments in the sustainability scores for the four main customer groups named above and for the CO₂ impact of our loan portfolio on an annual basis to ensure that the pursuit of our sustainability ambition is transparent.

Improving sustainability on three fronts

The BNG Bank sustainability policy focuses on the three components of the value chain:

1. Lending
2. Business operations
3. Funding

The bank's sustainability ambitions for each component are explained below.

1.LENDING

BNG Bank will limit its lending to Dutch public-sector institutions and organisations with a strong government involvement. Article 2 of our [articles of association](#) provides a framework for the institutions that are eligible for financing. There must always be a material *financial* involvement on the part of a government body. Customers outside of this framework will not be eligible for financing by BNG Bank. The bank encourages customers to become more sustainable and is actively involved in the transition toward the use of energy from renewable sources.

Our clients are subject to the Customer Due Diligence (CDD) policy, which covers integrity risks and human rights aspects. A High Risk assessment in the field of human rights (countries and sectors) is part of the lending process.

The [Equator Principles](#) framework applies to project financing. This means that customers must report annually on their projects' compliance with the principles. The lending proposals include a section on sustainability, which focuses on the results of the environmental and social risk assessments required under the Equator Principles.

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 done

using OECD guidelines, labour standards from the International Labour Organisation (ILO) and the principles of UN Global Compact. Even if the outcome of this analysis is positive, the bank may still decide not to refinance these loans, unless BNG Bank is acting as a funder designated by the Ministry of Finance (CIRR).

The Dutch duty of care, acting in the customer's interests, has priority in the bank's services. Accordingly, we aim to provide straightforward and transparent products that meet the needs of our customers and have manageable risks attached. Considerable attention is given to providing customers with clear and concise information and warning them of the risks attached to certain products. Our lending conditions are set out in fair, extensive and accurate terms and do not contain any hidden onerous conditions (small print). All costs and terms are outlined clearly and unambiguously.

The development of new products is subject to a product approval process (PARP) at BNG Bank, which is also used to evaluate existing products periodically.

Responsibility for the specific components of the process has been delegated to various departments of the bank. The PARP process ensures that the duty of care in respect of the customer is given a more prominent role within product approval. This is achieved by defining the target group (positive and negative) and identifying the needs and the risk profile to ensure that the design of the financial instrument, including its properties, does not have an adverse impact on end customers or lead to problems in relation to market integrity.

A significant percentage of customers must comply with laws and regulations intended to guarantee a healthy financial position. Policy papers apply to the energy and healthcare sectors, which set out the minimum requirements customers must meet in order to be eligible for financing. Where appropriate, more stringent requirements are imposed. Each year, customers are subjected to a review, which determines whether the covenants agreed upon for financing have been complied with. In the event of a covenant breach, a solution will be sought in consultation with the customer to return to the desired levels. If necessary, the review frequency will be increased and the assessment intensified. In extreme cases, a decision can be made to terminate the relationship with the customer.

The Executive Board and senior management are responsible for achieving targets in relation to lending. The Supervisory Board assesses actual performance each year based on a report by the independent auditor. Controlling long-term lending is the responsibility of the director of Public Finance who reports to the chairman of the Executive Board.

Exclusion criteria for lending

BNG Bank has excluded a number of activities and business practices from lending, even if such financing is permitted by the bank's articles of association. Any relevant scenarios in which the government has set specific policies or provides explicit guarantees will be independently reviewed by the bank (on a case-by-case basis).

If a customer falls under the specified exclusion criteria at any time during the course of an agreement, the bank will in the first instance consult with the customer in question to try to find a solution to ensure the customer returns to a situation of compliance. In the event of repeated breaches of the criteria, the bank will examine ways to terminate the relationship with the customer concerned. We also reserve the right to reject a loan application on the grounds of sustainability considerations.

We expect our customers to comply with the laws and regulations applicable to them and to be able to show proof of such compliance on request. We expect them to assess the business partners that they work with in order to carry out their own activities for compliance with laws and regulations and with sustainability criteria (supply chain responsibility), and be able to show proof of such an assessment on request. We reserve the right to refuse a loan to a customer if that customer's suppliers do not meet the sustainability criteria.

Other exposures

BNG Bank maintains a portfolio of highly liquid securities. The majority of these securities are loans from national governments and supranational institutions within the EU, as well as the national governments of Switzerland, the US, Canada and Australia, which have a high credit rating. We also hold a limited number of negotiable RMBSs and covered bonds. There is no direct contact between the issuers of the securities and the bank.

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 business practices:

- 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.

2.FUNDING

By far the largest share of our funding is obtained through public offerings on international money and capital markets. The bank does not have a retail savings business.

We procure our funding from reputable dealers (investment banks) that are under the supervision of local regulators. This is essential to ensure that the bank's sizeable offerings are successfully placed. These dealers assess counterparties using their own Know Your Customer and CDD policies.

All dealers and other relevant parties, such as paying agents and brokers, are subject to the CDD policies of the bank. BNG Bank bonds are bearer papers that can be traded publicly. There is no direct contact between the bank and the purchasers of the securities. The bank has no influence over the ownership of securities and has no knowledge of current bondholders. However, we have published a number of Capital Market Facts known to us on our [investors' website](#). We fulfil our supply chain responsibility when issuing bond loans by informing potential investors in accordance with the transparency requirements under the Dutch Financial Supervision Act (Wft).

A special category of public offerings has been created with sustainable bonds: [Sustainability bonds](#) and [Social Housing Bonds](#). These bonds are used to finance best-in-class municipal authorities and corporations – those that scored the highest in their category in the area of sustainability according to the Telos system. In addition, we occasionally issue 'green bonds', which are directly linked to a sustainable project. We have set ourselves the objective of gradually increasing the issue frequency and volume of our SRI Bonds and Social Housing Bonds.

A limited share of our long-term funding requirement is provided by private placements. Here, too, there is no direct contact between the bank and the investor in most cases. The same procedure as for public offerings applies to the Know Your Customer process and the assessment under the CDD policy. The High Risk assessment applies here as well. Investors with whom direct transactions have been concluded in the form of private loans are subject to the CDD policies of the bank. This relates to a small share of the bank's funding requirement.

Short-term funding

The bank covers part of its short-term funding requirement by accepting deposits (predominantly from central banks) and by carrying out 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 Dutch Financial Supervision Act, Dutch anti-money laundering legislation and the International CSR Covenant on Human Rights. Countries and parties subject to internationally agreed sanctions are therefore excluded. These parties are also assessed against the exclusion list. Any existing positions will be wound down as quickly as is reasonably possible in the event that sanctions are imposed or if the bank decides after further consideration that a party should be excluded on the basis of the exclusion list. In addition to excluding parties on the grounds of internationally agreed sanctions, the bank will review the human rights risk aspect in certain countries on a case-by-case basis for proposed activities in those countries in the context of funding or transactions with financial counterparties, in line with its CDD policy, and make a

decision based in part on those considerations.

3. BUSINESS OPERATIONS

Human resources policy

Expert and engaged employees are crucially important for the organisation's performance. Long-term employability, mobility, diversity, flexibility, responsible remuneration and employee development are key aspects of our HR policy. Our policy sets out how we intend to ensure everyone is offered equal opportunities. BNG Bank complies with Dutch laws and regulations in relation to employee rights and working conditions, regardless of religion, gender, origin, sexual orientation or nationality. BNG Bank applies a zero-tolerance policy to cases of actual or attempted bribery and corruption, regardless of the target. Our employees must act ethically and with integrity. On commencing employment, particular attention is paid to employee and executive integrity. BNG Bank pursues a pre-employment screening policy. New employees receive the BNG Bank Company Code when joining the bank and take the oath or affirmation for the financial sector. The bank has procedures in place to prevent, discourage 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.

Responsibility for implementing the human resources policy rests with management and the Human Resources department.

Office building

BNG Bank uses green power derived from renewable sources and also generates electricity using solar panels. Our building is heated by district heating (residual heat). We do not use natural gas.

We aim to reduce the carbon footprint of our business operations to net zero by the end of 2020. We will primarily achieve this by making our office building in The Hague more sustainable (it already has an 'A' Label) and by offsetting the remainder of our carbon footprint. In the long term, we aim to reduce energy consumption in line with the provisions of the Paris Climate Agreement. The bank's maximum CO₂ emissions standards determine the choice of vehicles available under the car lease scheme. Electric vehicles or hybrid vehicles are preferred. Another option offered is a public transportation business travel pass.

Procurement

We largely procure our supplies from Dutch suppliers who are subject to Dutch laws and regulations. In the [procurement policy](#), procurement is tailored to actual use and there must be a good balance between environmental, people-related and economic interests. Suppliers are required to meet sustainability performance standards in the areas of working conditions, remuneration and working hours, either through external certification (ISO or EMAS) or through an assessment. The bank's exclusionary provisions apply to suppliers. At regular intervals, we discuss with suppliers their commitments to sustainable behaviour. If we notice that the bank's sustainability principles have been breached, we will consult the supplier and attempt to find a satisfactory solution. If we cannot find a solution, we will stop using that supplier. Given the size of the bank's organisation, the amount of expenditure on procurement activities is limited in absolute terms. The bank's procurement policy is

published at bngbank.nl.

Wherever possible, the bank gives suppliers an opportunity to employ people at the bank who would not normally have access to the regular labour market.

BNG Bank's policy and targets for sustainable business practices are established each year and evaluated under the responsibility of the Executive Board.

The Facility Services business unit is responsible for coordinating the office building and procurement policies. Various departments are involved in implementing these policies, depending on the topic.