

# Second-Party Opinion

## BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities



### Evaluation Summary

Sustainalytics is of the opinion that the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds – Best-in-class Sustainable Municipalities in the Netherlands – is aligned with those recognized by both the Green Bond Principles 2018 and the Social Bond Principles 2020. Although the proceeds of the bond will not be used for project financing, but general-purpose loans for municipalities, Sustainalytics believes that BNG Bank’s investments in best-in-class municipalities can improve the sustainability standards of the municipalities in the Netherlands and advancing the UN Sustainable Development Goals, specifically SDG 9 and 11.



**PROJECT EVALUATION / SELECTION** BNG Bank’s methodology for the identification of best-in-class municipalities was developed by Telos, an official partner of Tilburg University that focuses on the sustainable development of municipalities in the Netherlands. Sustainalytics is of the opinion that the methodology is robust and credible.



**MANAGEMENT OF PROCEEDS** BNG Bank has a system to track and monitor the use of proceeds, which will be audited and reported on. Pending full allocation, the Bank will hold unallocated proceeds in its accounts, following its liquidity policy. This process is aligned with market practice.



**REPORTING** While BNG Bank will not provide annual allocation reporting, it intends to report to investors when the proceeds are fully allocated, which is expected to be shortly after issuance. In addition, BNG Bank is committed to disclosing on an annual basis: the sustainability performance of the group of elected municipalities compared to the previous years, a list of elected municipalities with the largest improvements or reduction in overall score and the rationale behind, the performance of elected municipalities compared with the total group of Dutch municipalities, more detailed performance reporting, such as CO<sub>2</sub> emissions, and the performance based on the SDGs. While this is a limitation of the Framework, Sustainalytics considers the reporting of sustainability scores to be a sufficient indication of environmental and social improvements of the municipalities financed.

<b>Evaluation date</b>	November 03, 2020
<b>Issuer Location</b>	The Hague, The Netherlands

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## Introduction

BNG Bank N.V. (“BNG Bank”, the “Bank” or the “Issuer”) is the bank of and for local authorities and public-sector institutions in the Netherlands. Half of the bank’s share capital is held by the Dutch State and the other half by Dutch municipalities, provinces and a district water board. BNG Bank’s clients primarily comprise Dutch local authorities and public-sector institutions in housing, healthcare, education and public utilities. BNG Bank provides customized financial services, including from loans and advances, payment services, electronic banking. BNG Bank’s specialized financial services help to minimize the cost of social provisions to the public. In this regard, the bank plays an essential role in the public sector.

BNG Bank has developed the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities (the “Framework”) under which it is planning to issue sustainability bonds and use the proceeds to finance or refinance, in whole or in part, expenditures to best-in-class sustainable municipalities to highlight the importance of sustainable development to municipalities, provide relevant information to investors who want to see their capital used for investments in sustainable municipalities, and increase awareness of successful strategies used in high scoring municipalities. The Framework defines eligibility criteria as:

1. ‘Best-in-class’ sustainable municipalities in the Netherlands, as identified by the 2020 TSC-Telos Sustainability Monitor Methodology

BNG Bank engaged Sustainalytics to review the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities, dated November 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.6.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of BNG Bank’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. BNG Bank representatives have confirmed (1) they understand it is the sole responsibility of BNG Bank to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and BNG Bank.

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities is available on BNG Bank’s website at: <https://www.bngbank.com/funding/sustainability-bond>

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that BNG Bank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities

Sustainalytics is of the opinion that the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP). Sustainalytics highlights the following elements of BNG's Framework:

- Use of Proceeds:
  - The eligible category for the use of proceeds – Best-in-class Sustainable Municipalities in the Netherlands – is, broadly speaking, aligned with those recognized by the GBP and SBP as the category seeks to encourage improvement in the sustainability practices of municipalities in the Netherlands across a range of environmental and social themes.
  - BNG intends to use the proceeds to provide general purpose loans to 114 best-in-class municipalities<sup>4</sup> selected based on their sustainability performance against the TSC-Telos Rating Methodology, which includes both social and environmental criteria.
  - While recognizing that such loans can be expected to incentivize higher environmental and social standards at the municipalities, Sustainalytics notes that proceeds may go towards activities or projects that are not aligned with the overarching goal of the bond, which is a limitation to the Framework. However, by focusing on top-performing municipalities, the BNG Bank approach increases the likelihood that proceeds will be used to finance projects with positive sustainability impacts. Hence, overall, Sustainalytics is of the opinion that the use of proceeds of this bond will contribute to support sustainable development in the Netherlands.
  - BNG Bank intends to allocate proceeds to loans made in 2020.
- Project Evaluation and Selection:
  - The bond proceeds will be disbursed to the municipalities assessed as best-in-class for their sustainability performance. The Bank's methodology for the identification of best-in-class municipalities was developed by Telos, an official partner of Tilburg University. Sustainalytics is of the opinion that the TSC-Telos Rating Methodology provides a robust approach to rating the internal and external sustainability performance of Dutch municipalities (additional details on the assessment of this methodology are provided in the section below). Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - BNG Bank has systems to link the bond's proceeds to individual loans for municipalities, which is controlled by internal audits. Under the systems, BNG Bank's capital markets support officer collaborates with the sales team for the initial selection of eligible assets, whilst the internal audit team is responsible for final approval of the selected assets. Pending full allocation, the Bank will hold unallocated proceeds in its accounts, following its liquidity

<sup>4</sup> This selection represents 32% of the total number of Dutch municipalities.

policy. Based on these elements, Sustainalytics considers management of proceeds to be aligned with market practice.

- Reporting:
  - BNG Bank will report to investors when the proceeds are fully allocated, which is expected to be shortly after issuance. The allocation will be verified as part of BNG Bank’s annual internal audit. For impact reporting, BNG will prepare an annual report on the sustainability scores and contribution to the SDGs of the 114 elected municipalities for the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities on its website. Investors and other stakeholders will be able to view the sustainability performance of the group of elected municipalities compared to the previous years, a list of elected municipalities with the largest improvements or reduction in overall score and the rationale behind, the performance of elected municipalities compared with the total group of Dutch municipalities, and more detailed performance reporting, such as CO<sub>2</sub> emissions. However, in Sustainalytics’ view the nature of such reporting does not directly link the bond proceeds to the impact achieved by the municipalities, which is a limitation.

### Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 4: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of BNG Bank

### Contribution of framework to BNG Bank’s sustainability strategy

Sustainalytics is confident that the objectives of this bond (described in the Introduction) align with BNG Bank’s Sustainability Vision and Sustainability Policy,<sup>5</sup> in which the bank commits to provide financing to projects with a desirable positive impact on society, targeting long-term business activities that create value for the market, people and environment. Overall, BNG Bank has integrated sustainable business practices as a key starting point of its activities and formulated social and environmental targets for project financing and its own operations.<sup>6</sup> Leaning on the TSC-Telos research institute and the 1987 Brundtland Report, the Bank defines an activity as sustainable “if it contributes to a positive long-term total impact in the ecological, socio-cultural and economic domains.”<sup>5</sup>

In line with this investment approach, BNG Bank has been financing sustainability-related initiatives in the Netherlands such as social housing, schools, wind and solar energy projects.<sup>7</sup> In addition, BNG Bank signed the Climate Statement of the Dutch Banking Association (NVB),<sup>8</sup> committing to increasing transparency on the impact of its business activities on climate, to integrating climate change in its business activities and to promoting sustainability among its clients. Furthermore, BNG Bank commits to the Partnership for Carbon Accounting Financials, an initiative under which the Bank will assess and disclose the GHG emissions of its financial portfolio.<sup>9</sup>

Given BNG Bank’s commitment to sustainability, and integration of sustainability into its business activities, the bond’s use of proceeds will, in Sustainalytics’ view, contribute to the Bank’s sustainability strategy.

### Strengths and limitations of TSC-Telos sustainability monitor methodology

The methodology developed by TSC-Telos for ranking municipalities based on their sustainability performance has been improved since its first version in 2014. A more detailed explanation of the methodology is provided in Appendix 1. Changes conducted in the 2020 methodology compared to 2019 methodology are detailed in Appendix 2. Sustainalytics has a positive view on the methodology changes implemented. Namely, indicators have been revised based on the coronavirus crisis in 2020 and updated scientific insights.

Based on a detailed review of the Capitals, Themes and Indicators analysed in the Sustainability Monitor Methodology (see Appendix 1), Sustainalytics is of the opinion that the Telos National Monitor for Sustainable

<sup>5</sup> BNG Bank, “Sustainability Policy”, (2020), at: <https://www.bngbank.com/Documents/Investors/BNG%20Bank%202020%20Sustainability%20policy.pdf>

<sup>6</sup> BNG Bank will release the environmental and social targets as part of its upcoming sustainability strategy.

<sup>7</sup> BNG Bank, “Sustainability”, at: <https://www.bngbank.com/sustainability>

<sup>8</sup> Dutch Banking Association (NVB), “Climate Statement Banks”, (2017), at: <https://www.nvb.nl/media/1390/climate-statement-banks-2017.pdf>

<sup>9</sup> PCAF, “Financial institutions taking action”, (2020), at: <https://carbonaccountingfinancials.com/financial-institutions-taking-action>

Municipalities is a useful and credible source for the requirements of BNG Bank in defining the eligibility criteria for the sustainability bond. The process is transparent, and data is collected from reliable public sources. Additionally, the annual public reporting of the Sustainability Monitor results provides detailed information per indicator for each municipality and an overview of leading and lagging themes.

However, Sustainalytics has also identified some shortcomings. For example, low-scoring municipalities with pre-existing disadvantages, such as a lack of economic resources and ecological infrastructures, might implement advanced sustainability approaches, yet the resulting improvement would still leave them in a low-scoring position. This makes it difficult to establish the potential positive impact of BNG Bank's approach in the case of economically disadvantaged municipalities. Despite such shortcomings, Sustainalytics is of the opinion that the TSC-Telos Sustainability Monitor Methodology increases awareness of successful strategies used in high scoring municipalities that can be adopted also by disadvantaged municipalities to improve their scores and provides an incentive for continuous improvement.

Overall, Sustainalytics is confident that the Sustainability Monitor Methodology is a robust approach to select best-performing Dutch municipalities.

#### **'Best-in-class' approach considerations**

Elected municipalities represent top-performing municipalities, a typical best-in-class approach. However, while the methodology is comprehensive and robust, the 'best-in-class approach' does not set a minimum sustainability score for eligible municipalities. Sustainalytics notes that there are three eligible municipalities with a total sustainability score below 50 points in 2020 while there were five in 2019 and 20 in 2018, highlighting an overall progression of the selection. The 2020 methodology adjustment (see Appendix 2) included adding 19 indicators speaking to socio-cultural, environmental, and economic topics.

In addition, all the municipalities with scores below 50 belong to the category of shrink municipalities, i.e. municipalities with a decrease in population of more than 2% between 2010 and 2020. Reasons for the high number of shrinking municipalities with lower scores could be the lack of incentive for investments in sustainability, but the shrinking nature could also be a result of a lack of investments in sustainability. It remains to be seen whether the bond can provide an incentive for the relevant municipalities to improve their sustainability performance.

### **Section 3: Impact of Use of Proceeds**

#### **Improving the environmental performance of Dutch cities to achieve climate goals**

The UN dedicated one of their 17 Sustainable Development Goals to the sustainable development of cities (SDG 11), stressing the importance of this area in developing a sustainable world. The European Commission has recognized the importance of cities and their impact on the environment,<sup>10</sup> as well as the importance of local governments and authorities to address the many challenges of urban areas.<sup>11</sup> Additionally, the Dutch government acknowledged that more than half of all CO<sub>2</sub> emissions originate in and around cities.<sup>12</sup> The reduction of CO<sub>2</sub> emissions is one of the key commitments made by national governments in the framework of the UN Climate Change Convention and particularly since the 2015 Paris Agreement. In addition, individual cities have made similar commitments, e.g. in the framework of the Covenant of Mayors to combat climate change.

Under the Climate Act on May 29, 2019, the Dutch government aims to achieve a 49% reduction in GHG emissions by 2030 compared to the 1990 baseline<sup>13</sup> Furthermore, the Dutch government included sustainability as an individual point in the priorities for the coming legislative period<sup>14</sup> (regerakkoord), highlighting its importance. Municipalities are mentioned in the context of improving sustainability of buildings, improved air quality, sustainable infrastructure, traffic security, new economic perspectives and well-being, stressing the importance of municipalities to achieve the national sustainability strategy and the Dutch commitment to meet the GHG emissions target.

<sup>10</sup> European Commission, "Making our cities attractive and sustainable", (2010), at: <http://ec.europa.eu/environment/europeangreencapital/wp-content/uploads/2011/08/Making-our-cities-attractive-and-sustainable.pdf>

<sup>11</sup> European Commission, "Green Cities Fit for Life", at: <http://ec.europa.eu/environment/europeangreencapital/about-the-award/policy-guidance/>

<sup>12</sup> Government of the Netherlands, "Dutch vision on global climate action", at: <https://www.government.nl/topics/climate-change/dutch-vision-on-global-climate-action>

<sup>13</sup> Government of the Netherlands, "Climate change", at: <https://www.government.nl/topics/climate-change/climate-policy>

<sup>14</sup> "Vertrouwen in de toekomst - Regeerakkoord 2017-2021", (2017), at: <https://www.kabinetformatie2017.nl/documenten/publicaties/2017/10/10/regeerakkoord-vertouwen-in-de-toekomst>

### Proven sustainability performance improvement

BNG Bank's approach to provide loans to best-in-class sustainable municipalities in the Netherlands is an innovative method that provides incentives for municipalities to better understand and improve their performance. This is confirmed by the Performance Reports for previous similar bonds. According to the 2019 Report,<sup>15</sup> there was an overall improvement of sustainability scores of 0.62% point in the 2018 elected municipalities. In addition, the following improvements were made in the elected municipalities from the 2014, 2015, 2016, 2017, and 2018 sustainability bond for Dutch municipalities.<sup>16</sup>

- (i) The overall scores of elected municipalities from 2014 improved by 3.69% points between 2014 and 2019, 3.33% points for 2015 municipalities between 2015 and 2019, 2.07% points for 2016 municipalities between 2016 and 2019, 1.38% points for 2017 municipalities between 2017 and 2019 and by 0.62% points for 2018 municipalities between 2018 and 2019, indicating a continuous improvement of sustainability performance.
- (ii) For the socio-cultural indicator set, the following improvements were made until 2019 for the 2014, 2015, 2016, 2017 and 2018 selected municipalities. The scores increased by 4.21% points, 3.79% points, 2.34% points, 1.72% points and 0.36% points, respectively.
- (iii) For the ecological indicator set, the following improvements were made until 2018 for the 2014, 2015, 2016, 2017 and 2018 selected municipalities. The scores increased by 3.29% points, 2.14% points, 0.93% points, 0.55% points and 0.28% points, respectively.
- (iv) For the economic indicator set, the following improvements were made until 2018 for the 2014, 2015, 2016, 2017 and 2018 selected municipalities. The scores increased by 3.56% points, 3.8% points, 2.96% points, 1.86% points and 1.22% points, respectively.

Furthermore, the analysis shows 97.9% of 2014 elected municipalities reduced or stabilized their CO<sub>2</sub>-emissions and all elected municipalities improved total sustainability score in reporting years 2014-2019.

Examples of municipalities that improved their sustainability in the last years include the Rozendaal municipality. Between 2015 and 2019, the sustainability score of Rozendaal increased by 6.2% points, which is the highest increase over the period.<sup>17</sup> The municipality aims to become energy neutral by 2050.<sup>18</sup> Municipal energy neutrality means that energy demand is met entirely by renewables. To achieve this target Rozendaal plans to save 1.5% of energy consumption annually and to increase renewable energy generation by 2% per year.<sup>18</sup>

Another example of a financed municipality, Bloemendaal, developed a Sustainability Vision 2030, which outlines the municipality's sustainability goals, including, among others, 15% of its energy to be derived from local sustainably produced energy. The Bloemendaal Sustainability Programme 2015-2018<sup>19</sup> further elaborates on detailed targets, including subsidies for sustainable housing, and knowledge sharing on sustainability. Finally, the municipality of Utrecht developed a mobility plan<sup>20</sup> that aims at higher living quality for inhabitants, more space for pedestrians and cyclists, connection from car to public transport, and improved traffic safety. Utrecht is currently working on extending the mobility plan to 2040, confirming its commitment to sustainable and inclusive mobility.<sup>21</sup> These examples demonstrate the ambitions of the eligible municipalities to become more sustainable and give an indication of which projects may be financed by the use of proceeds. Thus, Sustainalytics believes that the use of proceeds is likely to fund projects with good sustainability credentials and contribute to supporting sustainable development.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDGs and targets:

<sup>15</sup> BNG Bank, "1st Performance Report of Elected Dutch Municipalities of BNG Bank Sustainability Bond of November 2017", (2018), at:

<https://www.bngbank.com/Documents/Investors/1st-performance-report-sustainability-bond-2017.pdf>

<sup>16</sup> BNG Bank, "Sustainability Bond", (2020), at: <https://www.bngbank.com/funding/sustainability-bond>

<sup>17</sup> BNG Bank, "Fourth Performance Report of Elected Dutch Municipalities of BNG Bank Sustainability Bond of October 2015", (2019), at:

[https://www.bngbank.com/Documents/Investors/4th\\_Performance\\_Report\\_Sustainability\\_Bond\\_2015.pdf](https://www.bngbank.com/Documents/Investors/4th_Performance_Report_Sustainability_Bond_2015.pdf)

<sup>18</sup> Gemeente Rozendaal, "Energie besparen en duurzaam opwekken", at:

[https://www.rozendaal.nl/Inwoners/Duurzaam\\_Rozendaal/Energie\\_besparen\\_en\\_duurzaam\\_opwekken](https://www.rozendaal.nl/Inwoners/Duurzaam_Rozendaal/Energie_besparen_en_duurzaam_opwekken)

<sup>19</sup> Gemeente Bloemendaal, "Uitvoeringsprogramma Duurzaamheid 2015-2018", (2015), at: <http://docplayer.nl/42251928-Uitvoeringsprogramma-duurzaamheid.html>

<sup>20</sup> Gemeente Utrecht, "Utrecht Aantrekkelijk en Bereikbaar - Slimme Routes, Slim Regelen, Slim Bestemmen", (2016), at:

<https://omgevingsvisie.utrecht.nl/fileadmin/uploads/documenten/zz-omgevingsvisie/thematisch-beleid/verkeer-mobiliteit/2016-05-mobiliteitsplan-utrecht-2025-slimme-routes-slim-regelen-slim-bestemmen.pdf>

<sup>21</sup> Gemeente Utrecht, "Mobiliteitsplan 2040", at: <https://omgevingsvisie.utrecht.nl/thematisch-beleid/mobiliteitsplan-2040>

Use of Proceeds Category	SDG	SDG target
Sustainable Municipalities	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all;  9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons;  11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management;  11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities.

## Conclusion

BNG Bank has developed the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities under which it intends to issue sustainability bonds and use the proceeds to finance expenditures to best-in-class sustainable municipalities. Sustainalytics expects that the projects funded by the sustainability bond proceeds will support sustainable development in the Netherlands. Sustainalytics views BNG's process to select municipalities as innovative and robust. While recognizing that loans can be expected to incentivize higher environmental and social standards at the municipalities, Sustainalytics considers the provision of general-purpose loans to municipalities to be a limitation to the Framework. However, by focusing on top-performing municipalities, the BNG Bank approach increases the likelihood that proceeds will be used to finance projects with positive sustainability impacts.

Sustainalytics considers BNG's selection process robust and its process for management of proceeds to be aligned with market standard. While BNG's impact reporting is not directly linked to the impact achieved by the municipalities, which is a limitation, BNG will publish an impact report that outlines the sustainability improvements of the eligible municipalities. Furthermore, Sustainalytics believes that the BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities is aligned with the overall sustainability strategy of the Bank and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 9, and 11.

Based on the above, Sustainalytics is confident that BNG is well-positioned to issue sustainability bonds and that that BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities is robust, transparent, and, with the limitations noted above, aligns with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020), and Sustainability Bond Guidelines (2018).

## Appendices

### Appendix 1: The Telos methodology

The proceeds of the 2020 Sustainability Bond for Dutch Municipalities will be used by BNG Bank to lend to 'best-in-class' sustainable municipalities in the Netherlands, as identified by the 2020 TSC-Telos Sustainability Monitor Methodology. The proceeds of this bond are for the general-purpose use of the eligible municipalities.

The eligible municipalities will be defined as the 15 top-performing municipalities within each of the fourteen categories defined by TSC-Telos. These categories are used to group municipalities based on their size and social and geographical characteristics ('municipality types').<sup>22</sup> The 14 types of municipalities are listed in the below Table 1.

**Table 1: Characteristics and definitions for the 2020 typologies**

Criteria	Type of municipality	Definition	Count
Size	Small	<50.000 inhabitants	267
	Medium size	Between 50.000 and 100.000 inhabitants	56
	Large	>100.000 inhabitants	32
Demographic development	Growing	Population growth between 2009-2019: >5%	111
	Shrinking	Decline of population between 2009-2019: <2%	38
Housing stock	New towns	> 35% of the housing stock built after 1990	42
	Historical municipality	> 8% of the housing stock built before 1905, and at least one protected historical area	41
Employment opportunities	Residential municipality	Municipalities with an employment function	35
	Work municipality	Working opportunity function >100 and number of jobs >14,000	77
Soil use	Green municipality	Share of forest or natural area > 30%	52
	Agricultural municipality	Share of agricultural land use > 75%	101
Different criteria	Centre municipality	Municipality includes > 15% of inhabitants of one Corop <sup>23</sup> area and has above average level of facilities and services	50
	Former industrial municipality	> 55% of working population worked in the industrial jobs according to the 1960 census	66
	Touristic municipality	> 10% of businesses focusses on tourism, or > 14% of working population works in tourism	64

#### The TSC-Telos Sustainability Monitor Methodology

Since 2014, TSC-Telos has published a National Monitor for Sustainable Municipalities based on a wide range of sustainability criteria at the request of the Dutch Ministry of Infrastructure and Environment. This rating compares municipalities based on their sustainability performance and is aligned with an European initiative known as the European Reference Framework for Sustainable Cities (EU RFSC),<sup>24</sup> which applies a "triple P" approach, based on three pillars: People, Planet and Profit/Prosperity. This National Monitor is updated

<sup>22</sup> The Dutch National Monitor of Sustainable Municipalities 2017 categorizes fourteen types of municipalities to reflect 'quantitative' city types, related to the number of inhabitants, and 'qualitative' city types related to specific clusters of social, historical and geographical characteristics.

<sup>23</sup> The Netherlands has 40 Corop areas, which are divided in a core and support area.

[https://www.regioatlas.nl/indelingen/indelingen\\_indeling/t/corop\\_subregio\\_s](https://www.regioatlas.nl/indelingen/indelingen_indeling/t/corop_subregio_s)

<sup>24</sup> The EU RFSC is a voluntary web tool that can help individual cities to organize their sustainability strategy and its implementation by applying the monitor tool. RFSC does not prescribe any specific indicators or sustainability goals. The disadvantage of this element is that cities cannot be compared to one another.



annually and includes a framework and data that provide a useful source for the BNG Bank in defining the eligibility criteria for its sustainability bond.

The TSC-Telos methodology for calculating the sustainability performance of Dutch municipalities incorporates three “Capitals” that are aligned with the RFSC’s pillars: Ecological Capital, Socio-cultural Capital and Economic Capital. Each of these Capitals has corresponding themes and indicators used for quantitative monitoring.

The 2020 TSC-Telos methodology monitors and rated municipalities based on the three Capitals, covering 22 themes and 140 scientific indicators for which quantitative data are available from reliable public sources. Please refer to Appendix 2 for a description of the Capitals, Themes and Indicators used in 2020. The data for these indicators will be collected from approximately 25 official public sources, such as the Dutch Central Bureau of Statistics, the Netherlands Environmental Assessment Agency and the Netherlands Institute for Social Research. The Table 2 below provides an example of the Capitals and themes covered:

**Table 2: Examples of themes analysed in the three capitals**

Capitals & Stocks	Indicators
<b>Socio-cultural Capital</b>	
Social participation	Social cohesion, Social contacts, Loneliness, General trust, Volunteers, Informal care giving, Being active in society
Political participation	Political engagement, Turnout local elections, Turnout national elections, Turnout European elections, Turnout provincial elections, Political trust
Economic participation	Long-term unemployment, Poor households, Social welfare benefits, Financial assets households
Arts and culture	Distance to Arts & Cinema’s, Distance to Museum, National monuments, Municipal monuments, Protected sights, Cultural employment, Cultural landscape, Festivals
Health	Mental health costs, Regular health costs, Life expectancy, Assessment of own health, Chronic illness, Hospital quality, Distance to general practitioner, Distance to public hospital, Medicine use
Life and health	Alcohol abuse, Drugs use, Smoking, Obesity, Insufficient movement, Movement friendly environment
Education	Distance to primary school, Distance to secondary school, Real-time to diploma, School dropouts, Education level population
Safety	Violent crimes, Property crimes, Confused people, Vandalism, Youth crimes, Police response time, Road safety, Child abuse, Feelings of insecurity
Residential environment	Satisfaction with living environment, Satisfaction with local shops and services, Distance to daily services, Tendency to move, Noise annoyance by neighbours, Noise annoyance by traffic
Housing	Migration, Satisfaction with dwelling, Affordable housing, Affordable rental housing, Vacancy houses, Transaction speed
<b>Ecological Capital</b>	
Soil	Contaminated sites with health risks, Contaminated sites with spreading risks, Contaminated sites with ecological risks, Soil sealing, Nitrogen deposition
Water	Water quality: Fish population, Water quality: Macro-fauna, Water quality: Flora, Physical-chemical water quality, Water quality: other substances, Water quality: Priority substances, Nitrogen emissions to surface water, Phosphorous emissions to surface water
Air	Emission of carbon-dioxide (CO <sub>2</sub> ), Emission of Nitrogen (NO <sub>x</sub> ), Emission of Particulate matter (PM <sub>2.5</sub> ), Emission of volatile organic substances (NMVOS), Concentration nitrogen-dioxide (NO <sub>2</sub> ), Concentration of ozone (O <sub>3</sub> ), Concentration of particulate matter (PM <sub>2.5</sub> )
Annoyance and external safety	Noise intensity, Light intensity, Risk contour, Floods, Flooding, Earthquakes, Urban heat islands
Nature and landscape	Natural landscapes, Biodiversity, Red list species
Energy	Wind energy, Solar energy, Natural gas use households, Electricity use households, Energy label houses, Natural gas use companies, Energy use companies, Renewable energy
Resources and waste	Total household waste, Household general micro waste, Household general macro waste, Separation general macro waste, Separation general micro waste
<b>Economic Capital</b>	

Competitiveness	Gross regional product per capita, Share of startups, Share of bankruptcies, Share of fast-growing enterprises
Labour	Employment function, Human resources exploitation, Unemployment, Incapacity for work, Rejuvenation labour force, Youth employment, Demographic pressure
Knowledge	Share of highly educated people, Share of knowledge workers, Capacity (applied) scientific education, High- and medium-tech employment, Employment in the creative industry
Spatial conditions for businesses	Stock business parks, Net/gross area ration of business parks, Share of outdated business parks, Accessibility of business parks, Vacant office spaces, Vacant retail spaces
Infrastructure and mobility	Access to train station, Access to main roads and highways, Share of electric personal vehicles, Share of electric commercial vehicles, Glass-fibre internet connectivity, Congestion, Recharging stations for electric vehicles, Access to public busses, Access to business parks, Cycling climate

### The scoring system

Each indicator is scored on a range from 0-100%, considering sustainability requirements that TSC-Telos formulated as goals for each indicator (i.e. the score represents the percentage of goal achievement). The sustainability goals are derived by TSC-Telos from EU and national regulations and experience with municipal practices. The achievement percentages are subsequently combined per theme resulting in a theme achievement percentage. The average theme scores are then added to calculate the average score for a sustainability Capital. Finally, the average score of the total of the three Capitals is calculated as the overall sustainability score of a municipality, with equal weight for all indicators, themes and Capitals.

In 2020, the overall sustainability scores for the 114 elected best-in-class municipalities varied from 49.0% points to 58.1% points.

## Appendix 2: 2020 Methodology adjustments

Het PON & Telos developed similar Frameworks in 2014, 2015, 2016, 2017, 2018 and 2019 for BNG Bank, using the methodology applied in its annual Dutch National Monitor of Sustainable Municipalities. Every year, the set of indicators is evaluated and refined to the latest data availability and scientific insights. In comparison to 2019, the number of indicators is changed, increasing from 132 indicators in 2019 to 140 indicators in 2020. While nineteen new indicators are added (including one indicator divided into four), eleven are removed, and four are moved to different stocks. The number and types of municipalities were not changed.

### Added indicators

- 'Turnout European elections' was added to the political participation stock.
- 'Turnout provincial elections' was added to the political participation stock.
- 'Number of festivals' was added to the arts and culture stock.
- 'Cultural landscape' was added to the arts and culture stock.
- 'Regular health costs per inhabitant' was added to the health stock.
- 'Movement friendly environment' was added to the lifestyle and health stock.
- 'transaction speed' was added to the housing stock.
- 'Household general micro waste' was added to the stock resources and waste.
- 'Household general macro waste' was added to the stock resources and waste.
- 'Separation general macro waste' was added to the stock resources and waste.
- 'Separation general micro waste' was added to the stock resources and waste.
- 'Youth employment' was added to the stock labor.
- 'Demographic pressure' was added to the stock labor.
- 'Cycling climate' was added to the stock infrastructure and mobility.
- The indicator risky behavior was divided into three indicators. 'alcohol abuse', 'drugs use' and 'obesity'. These indicators were added to the lifestyle and health stock.

### Deleted indicators

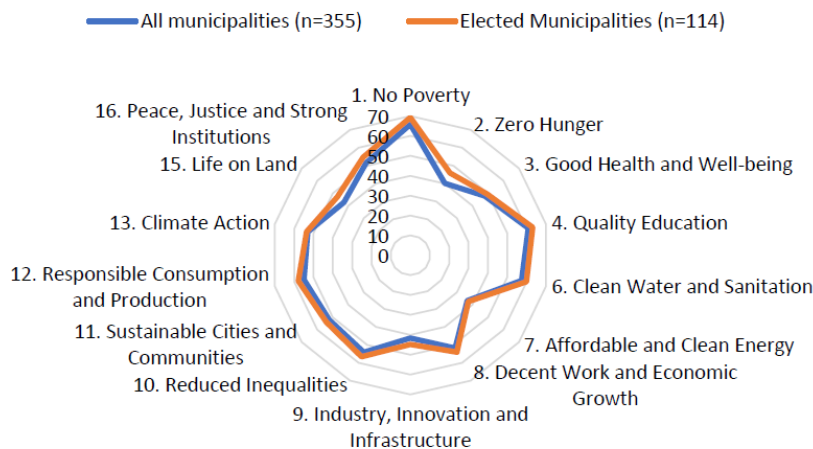
- 'Donor registrations' was removed from the social participation stock.
- 'The Gini-index (income inequality)' was removed from the economic participation stock.

- 'Household general waste' was removed from the stock resources and waste.
- 'Plastics' was removed from the stock resources and waste.
- 'Final examination mark' was removed from the stock education.
- 'Renewable energy' was removed from the stock energy.
- 'Share of employment in economic top sectors' was removed from the stock competitiveness
- 'Packaging glass' was removed from the stock resources and waste.
- 'Organic waste' was removed from the stock resources and waste.
- 'Paper and cardboard waste' was removed from the stock resources and waste.
- 'Ageing labor force' was removed from the stock labor.

**Changed indicators**

- 'youth unemployment' was removed from the education stock to the labor stock.
- 'Accessibility of business parks' was removed from the spatial conditions for businesses stock and added to the infrastructure and mobility stock.
- 'Noise annoyance by neighbors' was moved from the stock annoyance and external safety to the stock residential environment.
- 'Noise annoyance by traffic' was moved from the stock annoyance and external safety to the stock residential environment.

**Appendix 3: SDG mapping by 2020 Telos – methodology**



**Appendix 4: Sustainability Bond / Sustainability Bond Programme - External Review Form**

**Section 1. Basic Information**

<b>Issuer name:</b>	BNG Bank N.V.
<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b>	BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	November 9 <sup>th</sup> , 2020

**Publication date of review publication:**

This is an update of the BNG Sustainability Bond 2019, published November 2019. Overall this is the sixth update of a series of bonds issued on a yearly basis since 2014.

**Section 2. Review overview****SCOPE OF REVIEW**

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

**ROLE(S) OF REVIEW PROVIDER**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

**EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)**

Please refer to Evaluation Summary above.

**Section 3. Detailed review**

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

**1. USE OF PROCEEDS**

Overall comment on section (*if applicable*):

The eligible category for the use of proceeds –Best-in-class Sustainable Municipalities in the Netherlands – is aligned with those recognized by both the Green Bond Principles 2018 and the Social Bond Principles 2020. Although the proceeds of the bond will not be used for project financing, but general purpose loans for municipalities, Sustainalytics believes that BNG Bank's investments in best-in-class municipalities can improve the sustainability standards of the municipalities in the Netherlands and advancing the UN Sustainable Development Goals, specifically SDG 9 and 11.

**Use of proceeds categories as per GBP:**

- |   |  |
|---|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
|---|--|

# BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities

- |  |  |
|--|--|
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (please specify):  |

If applicable please specify the environmental taxonomy, if other than GBPs:

**Use of proceeds categories as per SBP:**

- |   |   |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure  | <input type="checkbox"/> Access to essential services   |
| <input type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance)   |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): 'Best-in-class' sustainable municipalities in the Netherlands, as identified by the 2020 TSC-Telos Sustainability Monitor Methodology |

If applicable please specify the social taxonomy, if other than SBP:

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Overall comment on section (if applicable):

BNG Bank's methodology for the identification of best-in-class municipalities was developed by Telos, an official partner of Tilburg University that focuses on the sustainable development of municipalities in the Netherlands. Sustainalytics is of the opinion that the methodology is robust and credible.

**Evaluation and selection**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

## BNG Bank Sustainability Bond for Dutch Best-in-Class Municipalities

- Summary criteria for project evaluation and selection publicly available  Other (please specify):

### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification  In-house assessment
- Other (please specify):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

BNG Bank has a system to track and monitor the use of proceeds, which will be audited and reported on. Pending full allocation, the Bank will hold unallocated proceeds in its accounts, following its liquidity policy. This process is aligned with market practice.

#### Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

#### Additional disclosure:

- Allocations to future investments only  Allocations to both existing and future investments
- Allocation to individual disbursements  Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds  Other (please specify):

### 4. REPORTING

Overall comment on section *(if applicable)*:

While BNG Bank will not provide annual allocation reporting, it intends to report to investors when the proceeds are fully allocated, which is expected to be shortly after issuance. In addition, BNG Bank is committed to disclosing on an annual basis: the sustainability performance of the group of elected municipalities compared to the previous years, a list of elected municipalities with the largest improvements or reduction in overall score and the rationale behind, the performance of elected municipalities compared with the total group of Dutch municipalities, more detailed performance reporting, such as CO<sub>2</sub> emissions, and the performance based on the SDGs. While this is a limitation of the Framework, Sustainalytics considers the reporting of sustainability scores to be a sufficient indication of environmental and social improvements of the municipalities financed.

**Use of proceeds reporting:**

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

**Information reported:**

- Allocated amounts
  Sustainability Bond financed share of total investment
- Other (please specify):

**Frequency:**

- Annual
  Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings
  Energy Savings
- Decrease in water use
  Number of beneficiaries
- Target populations
  Other ESG indicators (please specify):

**Frequency:**

- Annual
  Semi-annual
- Other (please specify):

**Means of Disclosure**

- Information published in financial report
  Information published in sustainability report
- Information published in ad hoc documents
  Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

<https://www.bngbank.com/funding/sustainability-bond>

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**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**
**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.



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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognized by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).



**Named**

**2015:** Best SRI or Green Bond Research or Rating Firm  
**2017, 2018, 2019:** Most Impressive Second Opinion Provider

