

Sustainability Bond for Dutch Municipalities



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Key Facts

- Founded by (local) government in 1914
- Dutch Government owned
 - Dutch State 50% (since 1921)
 - Dutch local governments 50%
 - Ownership restricted to Dutch public authorities
 - Registered shares only (not listed)
- BNG Bank's ratings: Aaa (stable) / AAA (stable) / AA+ (stable)
- Mission: to minimize the cost of Dutch local authorities and public sector institutions by providing credit at low rates to or guaranteed by public authorities in the Netherlands
- Dutch Promotional Bank
 - Lending restricted to local authorities and public sector institutions in the Netherlands and the E.U. (art. 2.3 Articles of Association)
- High Quality Liquid Assets ("HQLA") eligibility for the Liquidity Coverage Ratio ("LCR")
- Dutch Central Bank has designated BNG Bank as a bank of national systemic importance
- BNG Bank Euro-denominated bonds eligible under ECB Public Sector Purchase Programme ("PSPP")



Dutch Public Sector

Municipalities

- credit quality: similar to the State of the Netherlands
- Municipal Act / Financial Relationship Act
- 0% BIS risk-weighted by Dutch Central Bank

Housing Associations

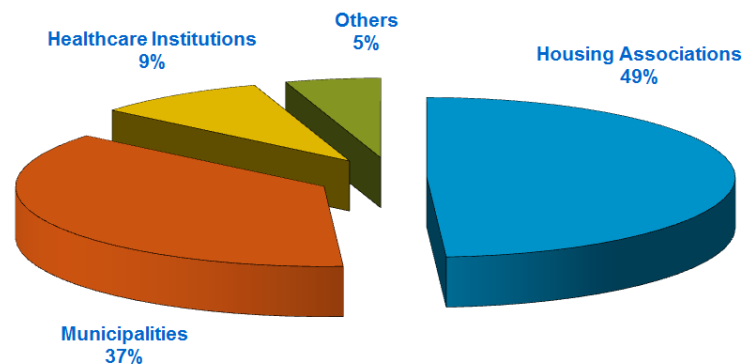
- social housing: subsidizing rent
- New Housing Act 2015
- guarantee fund "WSW": rated Aaa (stable) / AAA (neg)
- back stop by the State of the Netherlands:
irrevocable/irreversible/unlimited
- 0% BIS risk-weighted by Dutch Central Bank

Health Care institutions

- hospitals, elderly homes
- guarantee fund "WFZ": rated AAA (stable) by S&P
- back stop by the State of the Netherlands
irrevocable/irreversible/unlimited
- 0% BIS risk-weighted by Dutch Central Bank

Others

- public utilities, network companies, waste management
- education sector (universities/colleges),
- Energy Transition Financing Facility (ETFF)



BNG Bank's Long Term Assets:

Eur 80.7 bn

(June 2018)

BNG Bank's Market Share

(of *total outstanding* loans to Dutch public sector)

	2017	2016	2015
Municipalities	66%	67%	66%
Housing Associations	48%	49%	49%
Health Care	35%	36%	36%
Public Utilities	8%	8%	8%
Others	27%	27%	27%

Financial Data

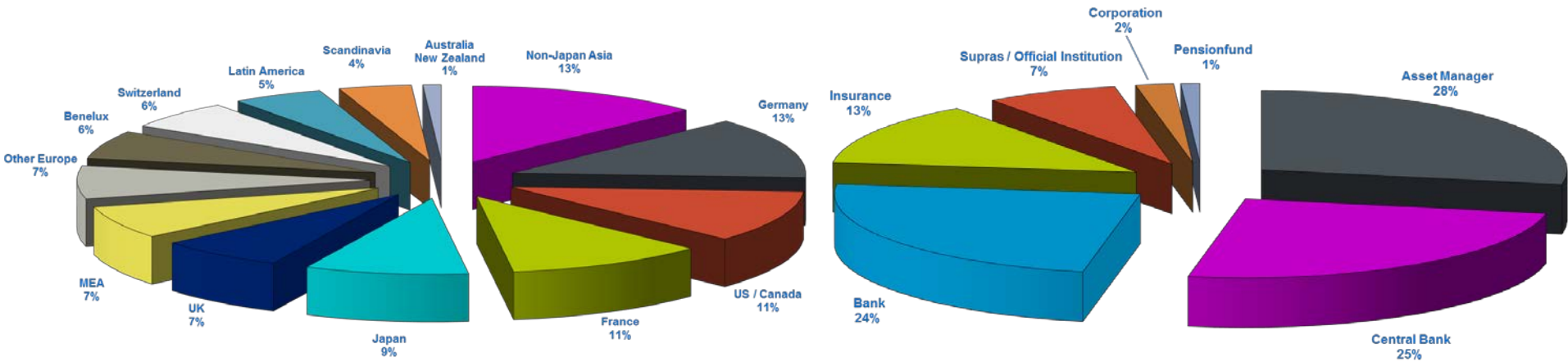
	2018 <i>first half</i>	2017	2016	2015
Total Assets (EUR bn)	144.0	140.0	154.0	149.5
Leverage Ratio	3.6%	3.7%	3.3%	2.9%
TIER 1 Ratio	38%	36.6%	31.9%	26.7%
Profit (EUR mn)				
- Profit (before tax)	275	535	503	314
- Net Profit (after tax)	207	393	369	226
Net Interest Margin	0.31%	0.31%	0.26%	0.30%
Cost to Income Ratio	11.5%	11.3%	11.3%	13.4%
Return on Equity	n.a.	10.8%	11.5%	7.3%
Dividend Pay Out Ratio	n.a.	37.5%	25.0%	25.0%

Long Term Funding

- Long term funding requirement
 - 2018 (f): EUR ~19-20bn
- Strategic funding
 - maintenance of a benchmark yield curve in EUR and USD
 - regular issuance of liquid transactions (size >1bn)
- Sustainability Bonds for Dutch Municipalities and for Dutch Social Housing Associations
 - following the ICMA Sustainability Bond Guidelines and UN Sustainable Development Goals
- Public deals
 - regular presence in public markets
 - AUD, CAD, CHF, GBP, JPY, NOK, NZD and SEK
- Private placements
 - MTN format and Loan format
 - plain vanilla
 - callable structures

Long Term Funding 2018

(as per November 2018)



Distribution by geography

Distribution by investor type

BNG Bank Sustainability

- Sustainability is an integral part of BNG Bank’s strategy
- BNG Bank awarded a C ‘prime’ sustainability rating by Oekom research AG (2016)
- The BNG Bank Sustainability Bonds criteria are defined in the ‘Framework for Best-in-Class Municipality Investment’ and in the ‘Framework for Dutch Housing Associations’
- Based on the methodology developed by an independent party: Sustainability Centre of Tilburg University (TSC-Telos)
- Sustainalytics has provided third party review for both frameworks
- The proceeds of the sustainability bonds are earmarked and allocated to lending to sustainable municipalities and sustainable Dutch social housing associations.
- The data used for the annual impact reporting by TSC-Telos comes from official public sources
- Listed on the Luxembourg Green Exchange



BNG Bank Sustainability – Independent Partners

- BNG Bank worked in close cooperation with TSC-Telos*, Sustainability Centre of Tilburg University, to develop a framework for a Sustainable Bond linked to the Best in Class Dutch Municipalities
- The BNG Bank Sustainable Bond criteria are defined in the 'Framework document for Best in Class Municipality Investment' (2018)
- The proceeds of the Sustainability Bond will be tracked by the issuer and allocated to BNG Bank's lending and investment operations to sustainable municipalities. This process will be audited
- Sustainalytics** has provided a second opinion for the framework and independently confirmed in their opinion that it follows the ICMA Sustainability Bond Guidelines
- ICMA Sustainability Bond Definition
Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects and are aligned with the four core components of both the GBP and the SBP with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects



*TSC-Telos specializes in operationalizing sustainable development in regional and urban initiatives. TSC-Telos Research areas are Climate Action & Resource Efficiency, Corporate Social Responsibility, Social Innovation and Governance. Sustainalytics provided an external opinion on the framework.

**Sustainalytics B.V. (Sustainalytics), a provider of environmental, social and governance (ESG) research and analysis, evaluated BNG Bank's Sustainability Bond transaction set forth in this Prospectus and the alignment thereof with industry best practice, provided views on the robustness and credibility of the Sustainability Bond within the meaning of the alignment with industry best practice.

BNG Bank Sustainability Bond Compliance with ICMA Sustainability Bond Guidelines

Use of proceeds

Top class of sustainable municipalities in the Netherlands, as defined in the 'Sustainability Framework for Best in Class Municipality Investment (2018)'

Process for project evaluation and selection

The selection is done by an independent party: Tilburg Sustainability Center of Tilburg University ("TSC-Telos"). The criteria are based on the UN Sustainable Development Goals (2016). Additionally, Sustainalytics provided an independent second opinion on the framework

Management of proceeds

The proceeds of the bond will be tracked by the issuer and allocated to BNG Bank's lending and investment operations to municipalities.

This will be audited internally.

The proceeds of the sustainability bond will (re)finance loans for the top class of Dutch municipalities.

Reporting

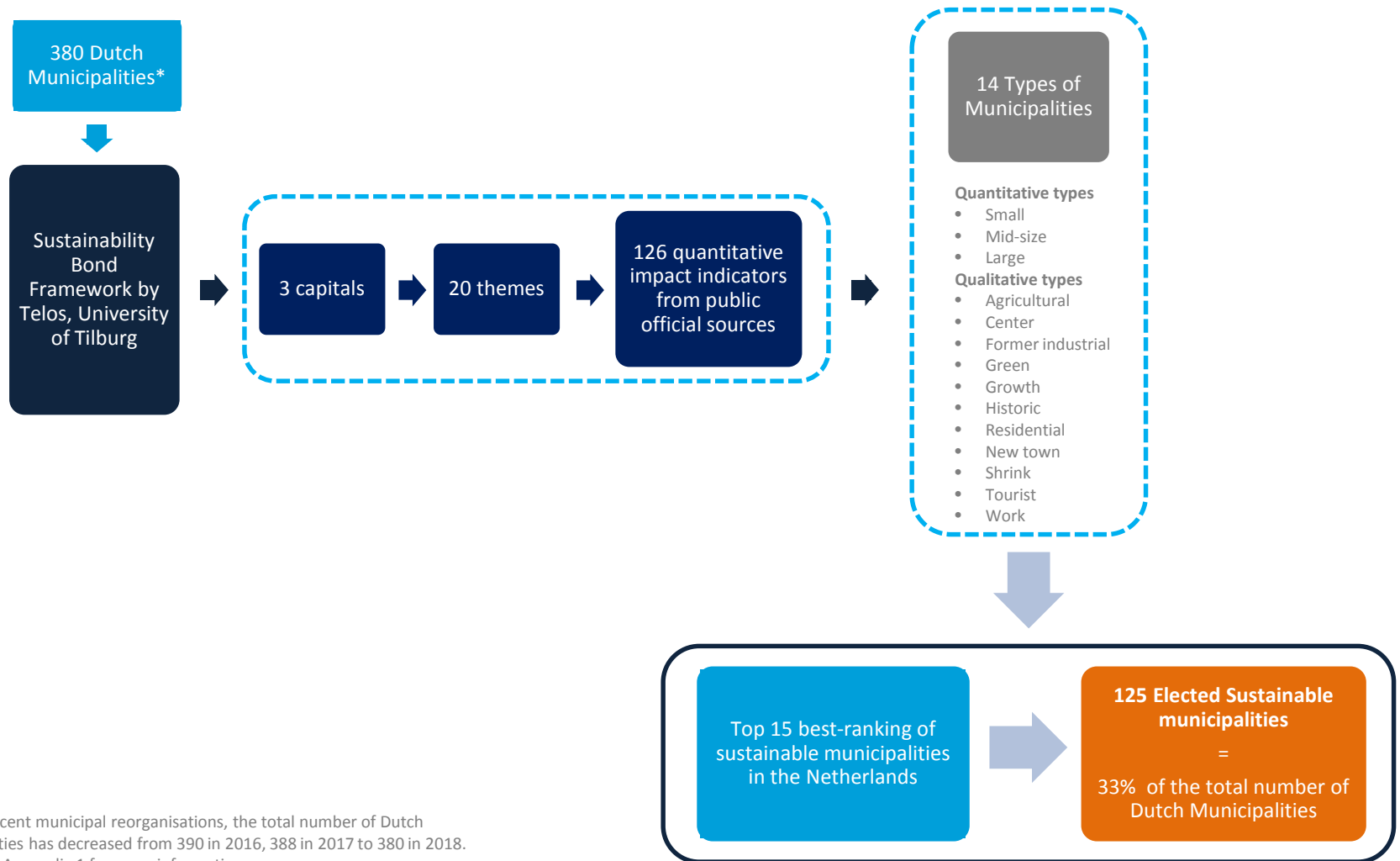
Annually TSC-Telos will prepare a Performance or Impact report. This report will give an update on the sustainability scores of the 125 Elected Municipalities for the 2018 Sustainability Bond for Dutch Municipalities. The data used for the annual impact reporting by TSC-Telos comes from official Dutch public data sources.



Sustainability Bond Guidelines
June 2018



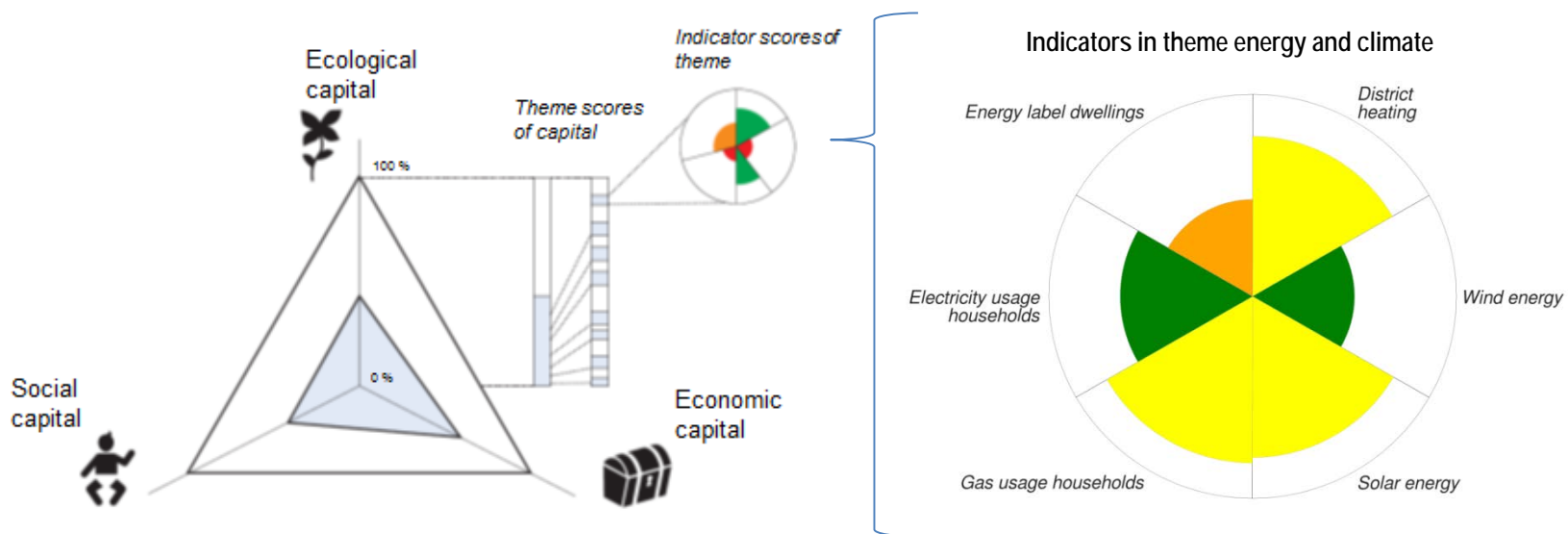
Process for evaluation and selection (1)



*Due to recent municipal reorganisations, the total number of Dutch municipalities has decreased from 390 in 2016, 388 in 2017 to 380 in 2018. Please see Appendix 1 for more information.

Process for evaluation and selection (2)

- The overall sustainability score of a Dutch municipality is calculated as the average score of the three sustainability capital scores
- Each sustainability capital score is calculated as the average score of the theme scores
- Each theme score is calculated as the average score of the indicators scores
- The higher the achievement of a Dutch municipality, the longer the pie piece (0-100%)
- Example 'Energy and Climate theme':



BNG Bank Sustainability Bond – Methodology

Ecological Capital	
Themes	Indicators
Soil	Contaminated sites with health risks, contaminated sites with spreading risks, contaminated sites with ecological risks, soil sealing, nitrogen deposition
Air	Emission of carbon-dioxide (CO ₂), emission of nitrogen (NO _x), emission of particulate matter (PM _{2.5}), emission of volatile organic substances (NMVOS), concentration nitrogen-dioxide (NO ₂), concentration of ozone (O ₃), concentration of particulate matter (PM _{2.5})
Annoyance and Emergencies	Annoyance by odors, annoyance by noise, noise intensity, light intensity, risk contour, floods, flooding, earthquakes, urban heat islands
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
Nature and Landscape	Public green, distance to recreational water, share of forest and natural area, 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
Resources and Waste	Total household waste, household general waste, organic waste, paper and cardboard waste, packaging glass, plastics

Social-Cultural Capital	
Themes	Indicators
Social Participation	Social cohesion, social contacts, loneliness, general trust, volunteers, informal care giving, being active in society
Economic Participation	Financial assets household, Long-term unemployment, Social welfare benefits, Poor households
Arts and Culture	Performing Arts & Cinema's, distance to museum, national monuments, municipal monuments, protected sights, cultural employment
Health	Insufficient movement, Risky behavior, Distance to general practitioner, medicine use, Distance to hospital, Life expectancy, Assessment of own health, Chronic illness, Confused people
Safety	Violent crimes, Property crimes, Vandalism, youth crimes, road safety, child abuse, feelings of insecurity
Residential Environment	Satisfaction with dwelling, satisfaction with living environment, satisfaction with local shops and services, distance to daily services, migration, new houses developed, vacancy houses, affordable housing
Education	Distance to primary school, distance to secondary school, final examination mark, real-time to diploma, school dropouts, youth unemployment, education level population
Political participation	Political engagement, turnout local elections, turnout national elections, political trust

Economic Capital	
Themes	Indicators
Labor	Employment function, Human resources exploitation, Unemployment, Incapacity for work, ageing labor force
Spatial Local Conditions for Businesses	Stock business parks, Net/gross area ratio business parks, Share outdated business parks, work locations, vacant office spaces, vacant retail spaces
Competitiveness	Gross regional product per capita, share of startups, share of bankruptcies, share of fast-growing enterprises, share of employment in economic top sectors, investments of non-financial companies
Infrastructure and Mobility	Access to train station, access to main roads and highways, shares of electric vehicles, recharging stations for electric vehicles, access to public busses
Knowledge	Share highly educated people, share of knowledge workers, capacity (applied) scientific education, high- and medium-tech employment, employment in the creative industry

Translation to SDG scoring

- The outcome of the triple P sustainability assessments were linked to the UN SDGs by TSC-Telos
- Most of the 126 available triple P indicators could get directly linked to the SDGs
- As the SDGs have some overlap, indicators may show up more than one time
- In total 14 of the 17 SDGs can be measured for Dutch municipalities (excluding Goals 5, 14 and 17)
- Over the period 2014-2018 the score for nearly all SDGs improved or remained stable



Sustainalytics Opinion

“Sustainalytics is of the opinion that the TSC-Telos Sustainability Monitor Methodology provides a robust approach to rating the sustainability performance of Dutch municipalities. Furthermore, elected municipalities represent top-performing municipalities, a typical ‘best-in-class approach’. Sustainalytics considers that this is a robust and consistent approach.”

Even though the use of proceeds will be for general-purpose use by ‘best-in-class’ sustainable municipalities, Sustainalytics is of the opinion that the assessment implemented ensures that bond proceeds will be directed towards municipalities with stronger ecological, social and economic performance and municipalities that are more likely to use those funds to financing projects with good sustainability credentials. However, Sustainalytics recognizes that this approach has some limitations regarding the ability to manage social and environmental risks and measure impact associated with the use of proceeds of this sustainability bond. Investors and other stakeholders will be able to view aggregate impacts achieved by the municipalities by reviewing publicly disclosed impact information published by TSC-Telos.”

“Based on the above, Sustainalytics is confident that BNG Bank is well positioned to issue sustainability bonds, and that the BNG Bank 2018 Sustainability Bond Framework is robust and transparent and in alignment with the four core components of ICMA’s Sustainability Bond Principles 2018.”

Sustainalytics – BNG Bank Sustainability Bond for Dutch Sustainable Municipalities (2018)



Summary



- Dutch Promotional Bank
- Aaa (stable) / AAA (stable) / AA+ (stable)
- 100% Dutch Government owned
- Standard & Poor's (22 December 2017)
 - "Leading lender to Dutch public authorities, supporting very strong asset quality"
 - "Sound capitalization"
 - "Almost certain likelihood of extraordinary government support"
- Moody's (15 May 2018)
 - "The largest lender to the Dutch public sector, fully owned by Dutch public entities"
 - "High asset quality"
 - "Very high probability of government support resulting in two-notch uplift for debt and deposit ratings"

Contact Information

Capital Markets

- Public Issuance
- Investor Relations

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E-mail: capital.markets@bngbank.nl

Money Markets

- Commercial Paper
- Short Term Deposits

Bloomberg Dealing: BNGM

Tel. : +31 70 3081 760

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www.bngbank.com

Appendix 1 The Telos Method of Measuring Sustainability

Changes in indicator set

- Every year, the set of indicators is evaluated and refined to the latest data availability and scientific insights. In this way Telos makes sure that the instrument stays up-to-date. The year ecological quality of surface water and Chemical quality of surface water are replaced with the sub-indicators of water quality and turnout local- and turnout national elections are moved to the new stock political participation.
- Compared to the 2017 edition, several indicators had to be deleted:
 - The indicators manure- Nitrogen quantity produced, and manure Phosphorous quantity produced in the Soil stock. Removed because of the lack of data-availability.
 - The indicator drinking water quality in the water stock. Removed due to the lack of regional data, and the good overall quality of drinking water in the Netherlands
 - Risk of road transport of dangerous chemicals in the annoyance and emergencies stock. Removed due to data unavailability.
 - Hospital quality because of data unavailability.

Municipal reorganisations

- In 2017, there were 388 Dutch municipalities. Due to recent municipal reorganisations, the total number of Dutch municipalities has decreased to 380. In comparison to last year's 'Socially Responsible Investment Bond 2017' framework report, there have been several municipal reorganisations:
 - The municipalities '*Hoogezand-Sappemeer*', '*Menterwolde*' and '*Slochteren*' have been merged into the municipality '*Midden-Groningen*'.
 - The Municipalities '*Franekeradeel*', '*Het Bildt*', '*Menaldumadeel*' and parts of '*Littenseradiel*' have been merged into the new municipality of '*Waadhoeke*'.
 - The municipality of '*Leeuwarderadeel*' and parts of '*Littenseradiel*' were added to the municipality of '*Leeuwarden*'
 - The rest of '*Littenseradiel*' was added to '*Súdwest-Fryslân*'.
 - The municipalities '*Bellingwedde*' and '*Vlagtwedde*' have been merged into the new municipality of '*Westerwolde*'.
 - The municipality '*Rijnwaarde*' was added to the municipality of '*Zevenaar*'.

Appendix 2

Macro Economic Data

Netherlands

	<u>2019*</u>	<u>2018*</u>	<u>2017</u>
GDP Growth	2.5	2.8	2.9
Consumer Prices	2.4	1.6	1.3
Unemployment	3.5	3.9	4.9
Current Account	9.9	9.0	8.8
Fiscal Balance	0.9	0.7	0.6
Government Debt	49.7	52.8	57.1
House prices	5.0	8.0	7.6

* forecast

