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Sustainability bond for Dutch Social Housing Associations



ZNG



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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)
- 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)
- Dutch Central Bank has designated BNG as a bank of national systemic importance
- BNG Bank's ratings: Aaa (stable) / AAA (stable) / AA+ (stable)
- High Quality Liquid Assets ("HQLA") eligibility for the Liquidity Coverage Ratio ("LCR")
- 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

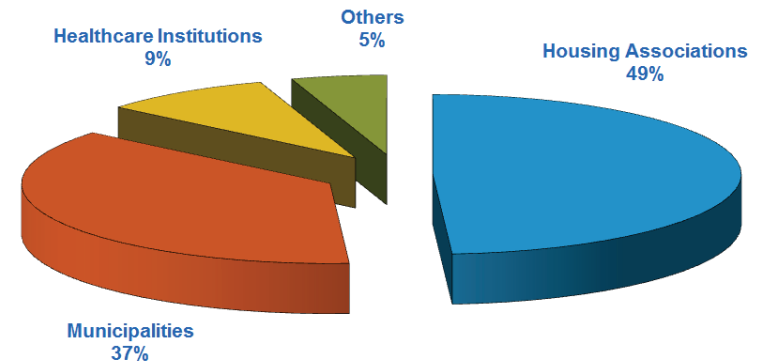
- social housing: subsidizing rent
- New Housing Act 2015
- guarantee fund "WSW": rated Aaa(stable)/AAA(neg)
- back stop by the State of the Netherlands:
irrevocable/irreversible/unlimited
- 0% BIS risk-weighted by Dutch Central Bank

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

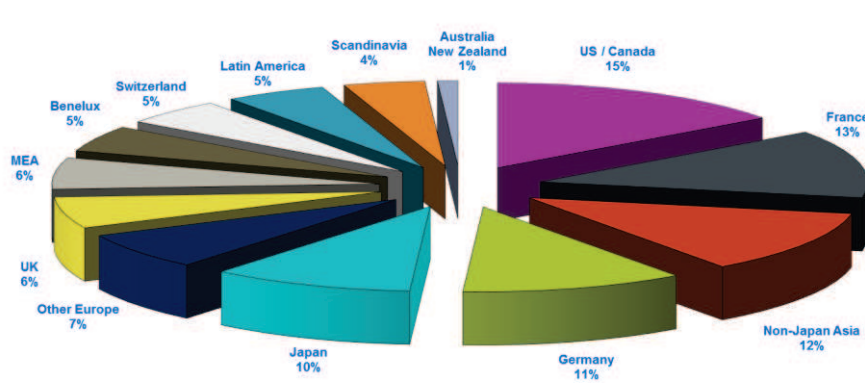
	2018 first half	2017	2016	2015
Total Assets (EUR bn)	144.0	140.0	154.0	149.5
Leverage Ratio	3.6%	3.7%	3.3%	2.9%
TIER 1 Ratio	38%	36.6%	31.9%	26.7%
Profit (EUR mn)				
- Profit (before tax)	275	535	503	314
- Net Profit (after tax)	207	393	369	226
Net Interest Margin	0.31%	0.31%	0.26%	0.30%
Cost to Income 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

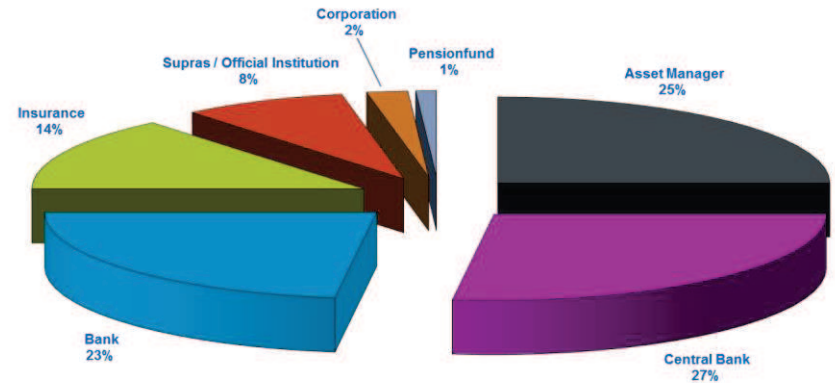
- Long term funding requirement
 - 2018 (f): EUR ~18bn
- Strategic funding
 - maintenance of a benchmark yield curve in EUR and USD
 - regular issuance of liquid transactions (size >1bn)
- Sustainability Bonds for Dutch Municipalities and for Dutch Social Housing Associations
 - Following the ICMA Sustainability 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 October 25, 2018)



Distribution by geography



Distribution by investor type

BNG Sustainability

- Sustainability is an integral part of BNG’s strategy
- BNG Bank awarded a C ‘prime’ sustainability rating by Oekom research AG (2016)
- The BNG 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



Dutch Housing Associations

Social Housing Market

- social housing: subsidizing rent for lower income groups (<EUR 36,165 annual income)
- non-profit organisations / foundations
- supervised by the Authority of Housing Association (“Autoriteit woningcorporaties”)
- to construct, maintain and rent housing space at an affordable price
- number of Housing Associations in the Netherlands: 350
- number of social rental units approx. 2.4 mn (31,5% of total number of dwellings)
- average rent EUR 492 per month
-

Social Housing Financing

- loans to housing associations as financed by BNG Bank are guaranteed
- guarantee fund “WSW”: rated Aaa (stable) / AAA (negative)
- The use of proceeds of BNG Bank sustainability bonds for Dutch Social Housing Associations are by law restricted to the requirements of the ‘Waarborgfonds Sociale Woningbouw Reglement van Deelneming’. Please find the appendices for a translation and the link to the Dutch webversion
- back stop by the State of the Netherlands: irrevocable/irreversible/unlimited
- 0% BIS risk-weighted by Dutch Central Bank

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 social housing sector in the Netherlands
- The BNG Bank Sustainable Bond criteria are defined in the 'Framework document for Dutch Housing Associations' (2018)
- The proceeds of the Sustainability Bond will be tracked by the issuer and allocated to BNG Bank's lending and investment operations to housing associations. 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 N.V. Bank Nederlandse Gemeenten'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

Housing Associations investing in neighborhoods with a social challenge, as defined in the 'Framework for Housing Associations'

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 Housing Associations. This will be audited and reported on. This sustainability bond will (re)finance loans to eligible Housing Associations

Reporting

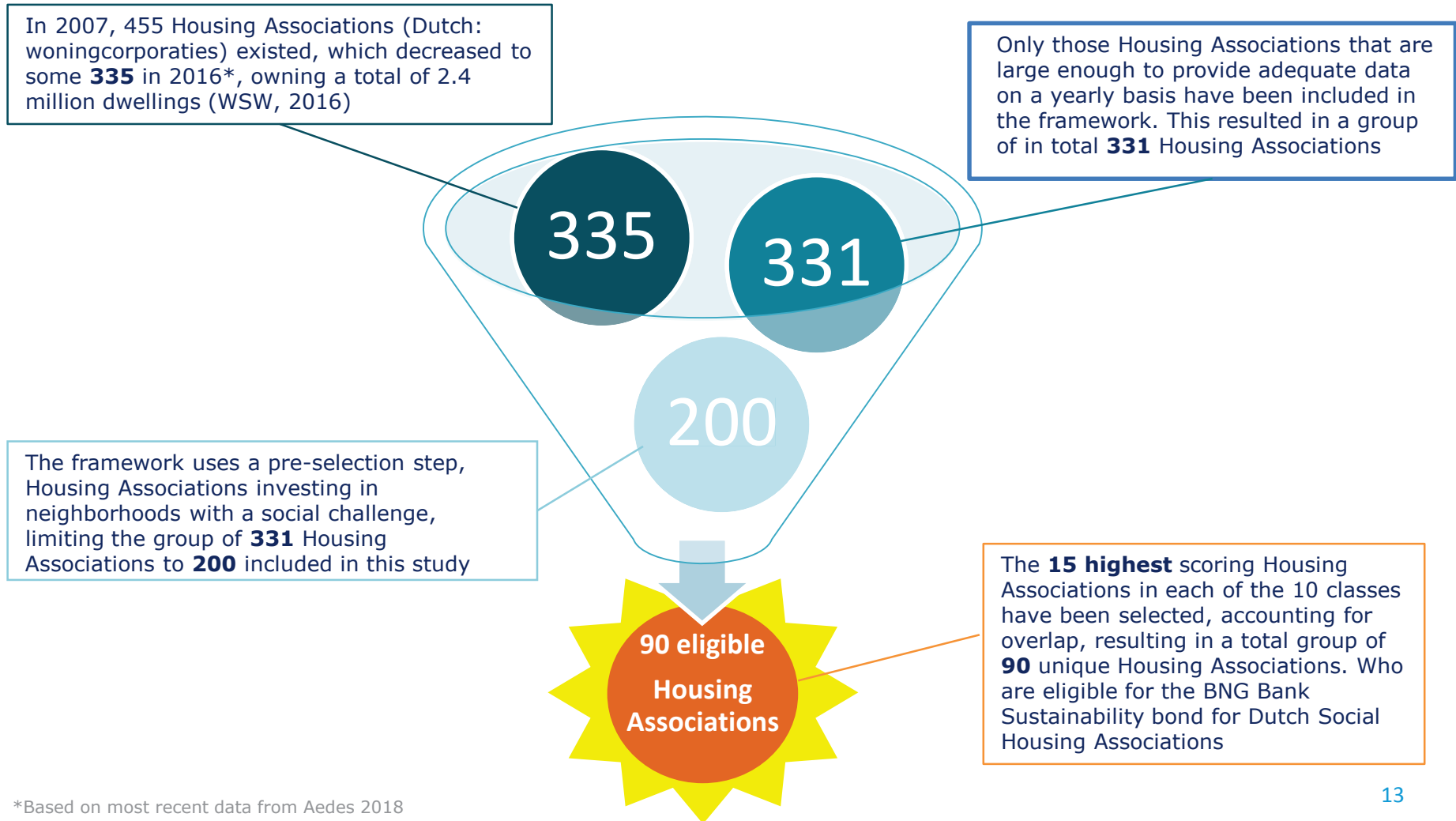
The data used for the annual impact reporting by TSC-Telos comes from official Dutch public data sources



Sustainability Bond Guidelines
June 2018

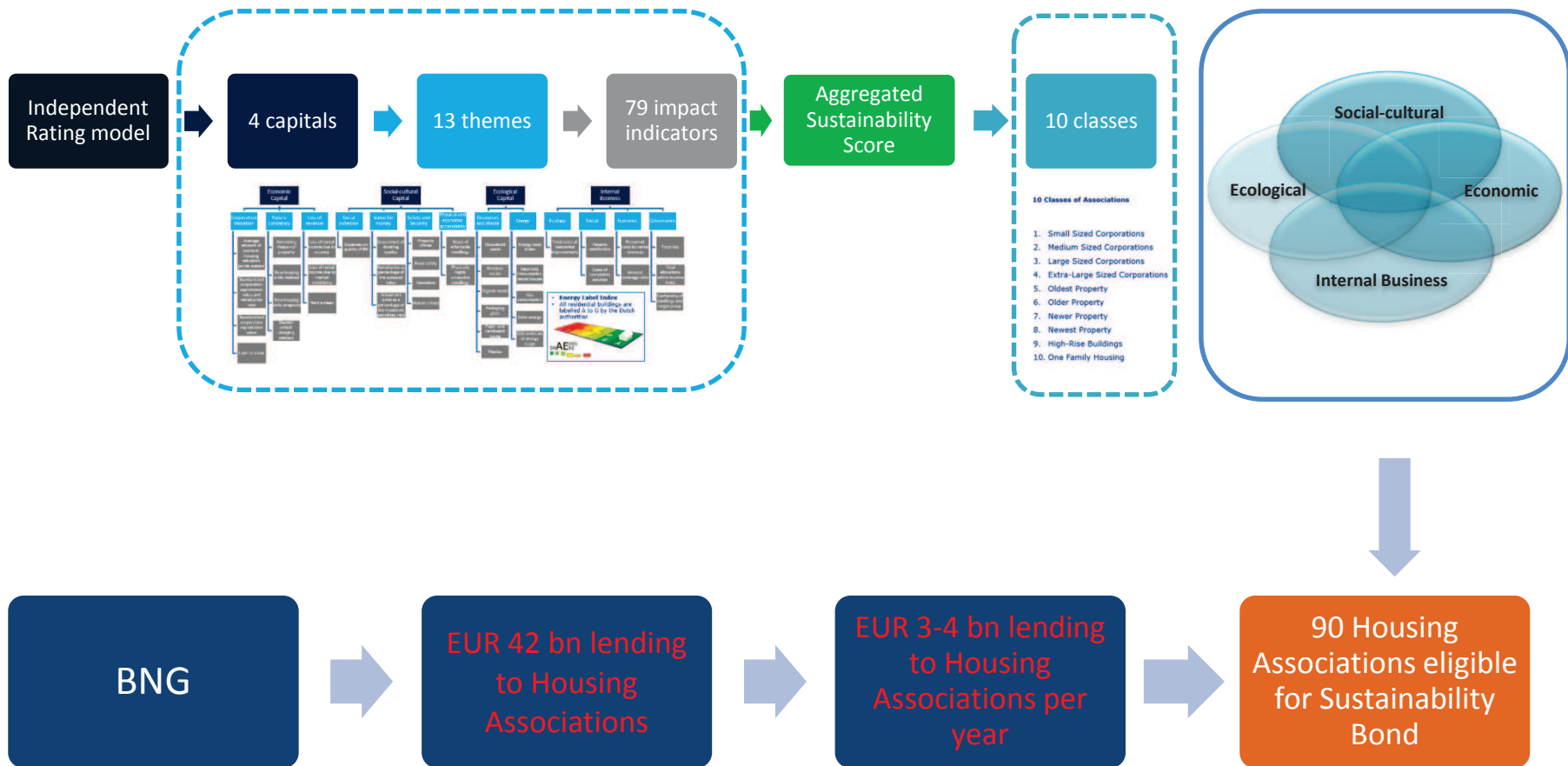


Use of Proceeds: Social Housing with a Focus on Deprived Areas

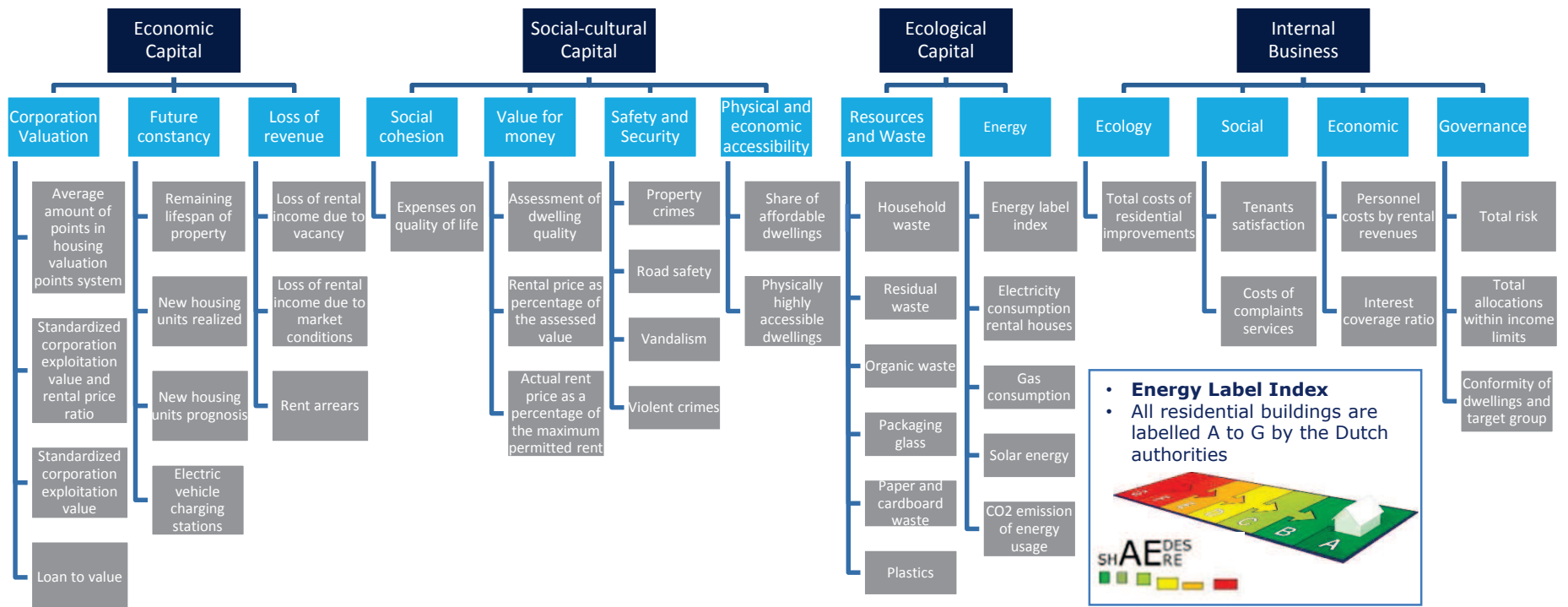


*Based on most recent data from Aedes 2018

Process for evaluation and selection (1)



Process for evaluation and selection (2)



Process for evaluation and selection (3)



10 Classes of Associations

1. Small Sized Corporations
2. Medium Sized Corporations
3. Large Sized Corporations
4. Extra-Large Sized Corporations
5. Oldest Property
6. Older Property
7. Newer Property
8. Newest Property
9. High-Rise Buildings
10. One-Family Housing

Best Scoring Housing Associations on the SDGs

Translation of sustainability assessment to SDG scoring



- The outcome of sustainability (PPP-) assessments were linked to the SDG's by Telos
- Of the 79 PPP indicators, 49 could get directly linked to the SDG's
- As the SDGs have some overlap, indicators may show up more than one time
- Based on the indicators, 13 out of the 17 SDGs are positively impacted by housing associations
- **The BNG Social Housing Framework 2018 can be found here: [LINK TO BNG WEBSITE](#)**

Reporting and Impact Indicators

BNG Bank will publish:

- An annual impact report (by TSC-Telos) for the Housing Associations that were financed with the bond including:
 - A comparison of sustainability scores of the group of elected housing associations in the reporting year with the year of issuance;
 - An analysis on the level of themes, and occasionally on the level of indicators, to better understand the causes of changes in performance of elected associations and the total group of associations;
 - A list of elected associations which showed the largest improvement in overall score and an indication of the main improvement themes and causes.

How will BNG Bank use the Sustainability Bond Framework for Social Housing?

- BNG Bank supports local Housing Associations to set and achieve their sustainability targets
- BNG Bank account managers are trained to discuss the ESG scoring with clients and to advise them on how to take sustainability into account when making investment decisions
- BNG Bank is convinced that this approach will create a positive momentum within the entire client base and result in positive social and environmental impacts

What is the role of Sustainability Center of Tilburg University (TSC-Telos) so far and in the future?

- Define the group of Dutch Housing Associations involved
- Develop norms and impact indicators (social, economic, ecological, internal business) that are relevant for Dutch Housing Associations
- Develop criteria to focus on Housing Associations investing in deprived neighborhoods, as Housing Associations exist to help solve social (housing) problems
- Develop a statistically significant classification of Dutch Housing Associations with distinct socio-economic and environmental profiles, for example small and large Housing Associations
- Collect readily available data from official public sources
- Measure sustainability (ESG) performance. The result is an ESG score for all of Dutch Housing Associations
- Develop impact reporting with data from official public sources

Sustainalytics Opinion

"Sustainalytics is of the opinion that the BNG Sustainability Bond for Dutch Social Housing Associations is credible and impactful and aligns with the four core components of the Social Bond Principles 2018, Green Bond Principles 2018 and Sustainability Bond Guidelines. Sustainalytics is of the opinion that BNG Bank's loans to social housing associations, with a focus on socially disadvantaged neighbourhoods in the Netherlands, will have a positive impact in addressing these social housing challenges. Sustainalytics views BNG Bank's process to select social housing associations as innovative and robust. The use of proceeds clearly seeks to achieve positive socio-economic outcomes for target populations, as demonstrated by the consideration of both the sustainability performance of social housing associations and their investments in socially disadvantaged neighbourhoods. In addition, Sustainalytics considers the inclusion of both social and environmental indicators to have the potential to foster improvements of social and environmental performance of the social housing associations."

"Based on the above considerations, Sustainalytics is of the opinion that BNG Bank's Sustainability Bond for Social Housing Associations' Framework is credible and will provide direct funding towards improving the availability and quality of affordable housing in the Netherlands."

Sustainalytics – BNG Sustainability Bond for Dutch Social Housing Associations (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

Tel. : +31 70 3081 730
E-mail: capital.markets@bngbank.nl

Money Markets

- Commercial Paper
- Short Term Deposits

Bloomberg Dealing: BNGM

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www.bngbank.com

Appendix 1

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	3.7	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



Appendix 2 Waarborgfonds Sociale Woningbouw (1/2)

For clarification purposes, below a list coming from article 10 section 1 under d of the 'Waarborgfonds Sociale Woningbouw Reglement van Deelneming' translated from Dutch. The use of proceeds of these bonds are by law restricted to the below list.

A: Housing

- (1) housing;
- (2) residential care housing;
- (3) houseboats with berths;
- (4) caravans and –stands;
- (5) children's homes and youth boarding;
- (6) 'skaeve huse';
- (7) land belonging to the previously described housing.

B: Immovable and infrastructural appurtenances of housing under A

- (8) greening and play facilities;
- (9) small-scale roads and paths
- (10) connection of residential areas to general utilities or infrastructural facilities;
- (11) parking facilities belonging to housing (under A);
- (12) bicycle parking facilities used for housing (under A);
- (13) heat cold storage installations associated with housing (under A);
- (14) soil belonging to the appurtenances in the preamble.

C: Social real estate

- (15) neighborhood houses;
- (16) community centers;
- (17) youth centers (without catering permit);
- (18) elementary schools;
- (19) rooms used for the purpose of social work related to the neighborhood;
- (20) rooms used for the purpose of welfare work related to the neighborhood;
- (21) shelter centres;
- (22) care support places within residential care buildings;
- (23) centers for youth and family;

- (24) rooms for day care disabled/elderly including healthcare infrastructure;
- (25) hospices;
- (26) village or neighborhood libraries;
- (27) own office spaces;
- (28) safety houses;
- (29) soil belonging to the social real estate in the preamble.

D: immovable and infrastructural appurtenances of social real estate under C and provisions for liveability

- (30) landscaping;
- (31) small-scale roads and paths;
- (32) connection to general utilities or infrastructural facilities;
- (33) parking facilities belonging to social real estate;
- (34) bicycle parking facilities at social real estate;
- (35) soil belonging to the appurtenances in the preamble.

E: Social property that the participant already owned on 1 July 2015

- (36) vmbo-mbo-schools, vwo-schools, school buildings for special education;
- (37) combination schools;
- (38) neighborhood sports facilities;
- (39) places for social activities not aimed towards the neighborhood;
- (40) places for welfare activities not aimed towards the neighborhood;
- (41) support centers for debt repayment and budget management advice for households with financial difficulties;
- (42) multifunctional centers for social services;
- (43) centers for work (opportunities) and/or promotion of activity in the neighborhood;
- (44) spaces for small-scale cultural activities;
- (45) soil belonging to the appurtenances in the preamble.

*Dutch webversion can be found using the link:

http://www.wsw.nl/uploads/tx_ddownload/20180424_Reglement_van_Deelneming_door_bestuur_op_4_april_2017_vastaestelde_versie_met_nieuwe_Bijlage_II_per_24_april_2018_premiedifferentiatie_cl.pdf

Appendix 2 **Waarborgfonds Sociale Woningbouw (2/2)**

For clarification purposes, below a list coming from article 10 section 1 under d of the 'Waarborgfonds Sociale Woningbouw Reglement van Deelneming' (or WSW) translated from Dutch. The use of proceeds of these bonds are by law restricted to the below list.

F: Immovable and infrastructural appurtenances of social real estate under E

- (46) landscaping;
- (47) small-scale roads and paths;
- (48) connection to general utilities or infrastructural facilities;
- (49) parking facilities belonging to social real estate;
- (50) bicycle parking facilities at social real estate;
- (51) soil belonging to the appurtenances in the preamble.

Refinancing of earlier loans with WSW security or of municipal or other Dutch governments.

(Re)financing of services of general economic interest (DAEB) that the 'Woningwet' dedicates to admitted institutions, other than under I and II mentioned, among others for example:

- payment of the contribution mentioned in article 58 section 2 of the 'Woningwet' so far that the contribution can administratively be allocated to the DAEB of the admitted institution;
- payment of the Obligo to WSW;
- building up of obligatory liquidity buffers for derivative contracts that are administratively connected to loans used for DAEB;
- termination of derivative contracts that are administratively connected to loans used for DAEB.

In exceptional cases WSW can secure loans for the financing of acute and unforeseen liquidity shortages in order to prevent bankruptcy, before the possibility to grant a subsidy for financial remediation has been explored and a decision has been made.

**Dutch webversion can be found using the link:*

http://www.wsw.nl/uploads/tx_ddownload/20180424_Reglement_van_Deelneming_door_bestuur_op_4_april_2017_vastaestelde_versie_met_nieuwe_Bijlage_II_per_24_april_2018_premiedifferentiatie_cl.pdf