Sustainability bond for Dutch Social Housing Associations
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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 Market Share  
(of total outstanding loans to Dutch public sector)

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<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
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<tbody>
<tr>
<td>Municipalities</td>
<td>66%</td>
<td>67%</td>
<td>66%</td>
</tr>
<tr>
<td>Housing Associations</td>
<td>48%</td>
<td>49%</td>
<td>49%</td>
</tr>
<tr>
<td>Health Care</td>
<td>35%</td>
<td>36%</td>
<td>36%</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Others</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
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</table>

Financial Data

<table>
<thead>
<tr>
<th></th>
<th>2018 first half</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (EUR bn)</td>
<td>144.0</td>
<td>140.0</td>
<td>154.0</td>
<td>149.5</td>
</tr>
<tr>
<td>Leverage Ratio</td>
<td>3.6%</td>
<td>3.7%</td>
<td>3.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>TIER 1 Ratio</td>
<td>38%</td>
<td>36.6%</td>
<td>31.9%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Profit (EUR mn)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Profit (before tax)</td>
<td>275</td>
<td>535</td>
<td>503</td>
<td>314</td>
</tr>
<tr>
<td>- Net Profit (after tax)</td>
<td>207</td>
<td>393</td>
<td>369</td>
<td>226</td>
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<tr>
<td>Net Interest Margin</td>
<td>0.31%</td>
<td>0.31%</td>
<td>0.26%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Cost to Income Ratio</td>
<td>11.5%</td>
<td>11.3%</td>
<td>11.3%</td>
<td>13.4%</td>
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<tr>
<td>Return on Equity</td>
<td>n.a.</td>
<td>10.8%</td>
<td>11.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Dividend Pay Out Ratio</td>
<td>n.a.</td>
<td>37.5%</td>
<td>25.0%</td>
<td>25.0%</td>
</tr>
</tbody>
</table>
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
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 Regelement 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 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.
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.
In 2007, 455 Housing Associations (Dutch: woningcorporaties) existed, which decreased to some 335 in 2016*, owning a total of 2.4 million dwellings (WSW, 2016).

Only those Housing Associations that are large enough to provide adequate data on a yearly basis have been included in the framework. This resulted in a group of in total 331 Housing Associations.

The framework uses a pre-selection step, Housing Associations investing in neighborhoods with a social challenge, limiting the group of 331 Housing Associations to 200 included in this study.

The 15 highest scoring Housing Associations in each of the 10 classes have been selected, accounting for overlap, resulting in a total group of 90 unique Housing Associations. Who are eligible for the BNG Bank Sustainability bond for Dutch Social Housing Associations?

*Based on most recent data from Aedes 2018
Process for evaluation and selection (1)

Independent Rating model → 4 capitals → 13 themes → 79 impact indicators → Aggregated Sustainability Score → 10 classes

BNG → EUR 42 bn lending to Housing Associations → EUR 3-4 bn lending to Housing Associations per year → 90 Housing Associations eligible for Sustainability Bond
Process for evaluation and selection (2)

- **Independent Rating model**
  - 4 capitals
  - 13 themes
  - 79 impact indicators
  - Aggregated Sustainability Score
  - 10 classes
  - 90 Eligible Housing Associations

**Economic Capital**
- Corporation Valuation
  - Average amount of points in housing valuation points system
  - Loan to value
- Future constancy
  - Remaining lifespan of property
  - New housing units realized
  - New housing units prognosis
  - Electric vehicle charging stations
- Loss of revenue
  - Loss of rental income due to vacancy
  - Loss of rental income due to market conditions
  - Rent arrears
- Social cohesion
  - Expenses on quality of life
- Value for money
  - Assessment of dwelling quality
  - Property crimes
  - Rent arrears
  - Rent price as a percentage of the assessed value
  - Actual rent price as a percentage of the maximum permitted rent
- Safety and Security
  - Road safety
  - Vandalism
  - Violent crimes
- Physical and economic accessibility
  - Share of affordable dwellings
  - Physically highly accessible dwellings

**Social-cultural Capital**
- Resources and Waste
  - Household waste
  - Energy label index
  - Total costs of residential improvements
  - Gas consumption
  - Energy consumption rental houses
  - Electricity consumption rental houses
  - Organic waste
  - Residual waste
  - Plastics
  - Packaging glass
  - Solar energy
  - Paper and cardboard waste
  - CO2 emission of energy usage

**Ecological Capital**
- Energy
  - Energy label index
  - Total costs of residential improvements
  - Tenants satisfaction
  - Costs of complaints services
  - Total risk
  - Total allocations within income limits
  - Conformity of dwellings and target group

**Internal Business**
- Social
  - Total allocations within income limits
  - Conformity of dwellings and target group
- Economic
  - Costs of complaints services
  - Total risk
  - Total allocations within income limits
  - Conformity of dwellings and target group
- Governance
  - Total allocations within income limits
  - Conformity of dwellings and target group

### Energy Label Index
- All residential buildings are labelled A to G by the Dutch authorities
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

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- Public Issuance
- Investor Relations

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E-mail: capital.markets@bngbank.nl

**Money Markets**
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- Short Term Deposits

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Bloomberg Dealing: BNGM

www.bngbank.com
## Appendix 1

### Macro Economic Data

**Netherlands**

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<thead>
<tr>
<th></th>
<th>2019*</th>
<th>2018*</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>2.5</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Consumer Prices</td>
<td>2.4</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Unemployment</td>
<td>3.5</td>
<td>3.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Current Account</td>
<td>9.9</td>
<td>9.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Fiscal Balance</td>
<td>0.9</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Government Debt</td>
<td>49.7</td>
<td>52.8</td>
<td>57.1</td>
</tr>
<tr>
<td>House prices</td>
<td>5.0</td>
<td>8.0</td>
<td>7.6</td>
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</table>

* forecast

sources: Central Plan Bureau and Dutch Central Bank
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 Regelement 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;

D: Immovable and infrastructural appurtenances of social real estate under C and provisions for liveability
- (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.

E: Social property that the participant already owned on 1 July 2015
- (30) combination schools;
- (31) neighborhood sports facilities;
- (32) places for social activities not aimed towards the neighborhood;
- (33) places for welfare activities not aimed towards the neighborhood;
- (34) support centers for debt repayment and budget management advice for households with financial difficulties;
- (35) multifunctional centers for social services;
- (36) centers for work (opportunities) and/or promotion of activity in the neighborhood;
- (37) spaces for small-scale cultural activities;
- (38) soil belonging to the appurtenances in the preamble.

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