

BNG BANK

SUSTAINABILITY BOND 2016

FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS

November 14th, 2016



www.sustainalytics.com

Catarina da Silva (Amsterdam)

Senior Advisor, Advisory Services

catarina.dasilva@sustainalytics.com

(+31) 20 205 00 45

Trisha Taneja (Toronto)

Advisor, Advisory Services

trisha.taneja@sustainalytics.com

(+1) 647 317 3695

TABLE OF CONTENTS

FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS	1
1. preface	3
2. Introduction	3
3. Framework overview	4
3.1 Use of Proceeds	4
3.2 Project Evaluation and Selection Process	6
3.3 Management of Proceeds	6
3.4 Reporting	6
4 SUSTAINALYTICS' OPINION	8
Conclusion	10
APPENDICES	11
SUSTAINALYTICS	20

1. PREFACE

N.V. Bank Nederlandse Gemeenten (BNG Bank), a Dutch bank for the public sector, intends to issue a Sustainability Bond to promote the bank's investment in 'best in class' sustainable municipalities in The Netherlands based on a Sustainability Monitor Methodology developed by TSC-Telos¹. BNG Bank has engaged Sustainalytics to provide a second opinion on its 2016 Sustainability Bond framework and on the bond's sustainability credentials. As a part of this engagement, Sustainalytics held conversations with members of BNG Bank's management team to clarify aspects of its Sustainability Bond framework related to the use of proceeds, management of proceeds and reporting. Sustainalytics also reviewed relevant public and internal documents, including the TSC-Telos Sustainability Monitor Methodology, which determined the eligibility criteria for the bond proceeds.

This document contains two sections:

- Framework Overview - a summary of the BNG Bank Sustainability Bond 2016 framework, developed by TSC-Telos, the Sustainability Center of Tilburg University; and
- Sustainalytics' Opinion - an opinion on the framework.

2. INTRODUCTION

BNG Bank 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 municipalities, provinces and a district water board. BNG Bank's clients primarily comprise local authorities and public sector institutions in the area of housing, healthcare, education and public utilities. BNG Bank provides customized financial services, ranging from loans and advances, consultancy, payment services, electronic banking to asset management. 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.

The 2016 Sustainability Bond aims to promote BNG Bank's investment in 'best in class' sustainable municipalities in The Netherlands. The bank uses a methodology developed by the Tilburg Sustainability Center of Tilburg University (TSC-Telos) for ranking municipalities based on their sustainability performance. By issuing this bond BNG Bank aims to:

- (i) Highlight the importance of sustainable development to municipalities,
- (ii) Provide relevant information to investors who want to see their capital used for investments in municipalities that have experience in improving sustainability, and
- (iii) Increase awareness of successful strategies used in high scoring municipalities.

These objectives align with the bank's Sustainability Policy² and strategy in which BNG Bank commits to provide financing to sustainable projects with a desirable positive impact on society, targeting long-term business activities that create value for the market, people and environment.

¹ www.telos.nl (in Dutch with English summary); Bastiaan Zoeteman, Pieter Tordoir, Rens Mulder, Ruben Smeets, Corné Wentink, John Dagevos, National Monitor Sustainable Municipalities 2016, A Step Forward!, Tilburg: Telos, Tilburg University, Document Nr 16.147.

² MVO-Beleid BNG Bank 2015

In its Sustainability Policy, BNG Bank defines sustainable projects as those that contribute to a) reducing energy use and CO₂ emissions; b) support sustainable mobility and transport, including improving air quality; and c) support real estate projects that implement recyclable and reusable materials or build according to life-cycle approaches. In line with this investment approach, BNG Bank has been financing socially relevant initiatives in The Netherlands such as the Energy Agreement for Sustainable Growth³ and Social housing.

The partnership between BNG Bank and TSC-Telos started in 2014 when the bank asked the institute to describe the sustainability criteria and selection process of ‘best-in-class’ Dutch municipalities eligible for a BNG Bank Sustainability bond. In October 2014, BNG Bank launched its inaugural Sustainability Bond, a EUR 500 million, 5-year benchmark (2014-2019). Since then, TSC-Telos provides a yearly update on eligible Dutch municipalities, using the methodology applied in its annual Dutch National Monitor of Sustainable Municipalities. The 2016 Sustainability Bond is the third issuance of this kind by BNG-Bank.

3. FRAMEWORK OVERVIEW

For this Sustainability Bond issued by BNG Bank, a framework has been created that follows the International Capital Market Association (ICMA)’s Green Bond Principles (GBP).

3.1 Use of Proceeds

3.1.1 Eligibility Criteria: The TSC-Telos Sustainability Monitor Methodology

The Sustainability Bond 2016 proceeds will be used by BNG Bank to lend to ‘best-in-class’ sustainable municipalities in the Netherlands, as identified by the 2016 Telos Sustainability Monitor Methodology. The proceeds of this bond are for the general purpose use of the eligible sustainable municipalities.

The eligible municipalities will be defined as the 15 top-performing municipalities within each of the fourteen categories defined by Telos. These categories group municipalities based on their size and social and geographical characteristics (‘municipality classes’).

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 a European initiative known as the European Reference Framework for Sustainable Cities (EU RFSC)⁴, which applies a “triple P” approach, based on three pillars: People, Planet and Profit. This National Monitor is

³ In the Energy Agreement for Sustainable Growth [Energieakkoord voor duurzame groei], more than forty organisations have laid the basis for a robust, future-proof energy and climate policy enjoying broad support. This agreement is a collective effort that strives to achieve a reduction in final energy consumption (100 petajoule by 2020), increase renewable energy generation (from 4.4% in 2013 to 14% in 2020) and create jobs. For further details please consult www.ser.nl.

⁴ 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.

updated annually and includes a framework and data that provide a useful source for the requirements of 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 table below provides an example of the Capitals and themes covered:

Table 1: Examples of themes analysed in the three capitals

Capitals	Example of themes analysed
Ecological Capital	Water, Energy and Climate, Resources and Waste
Socio-cultural Capital	Health, Safety, Education
Economic Capital	Labor, Competitiveness, Infrastructure and Mobility

In total, the framework monitors and rates municipalities based on the three Capitals, covering 19 themes and 105 scientific indicators⁵ for which quantitative data are available from reliable public sources. The data for these indicators will be collected from the Dutch Central Bureau of Statistics, the Netherlands Environmental Assessment Agency and the Netherlands Institute for Social Research.

The scoring system

Each theme, and subsequently each indicator is scored on a range from 0-100%, taking into account sustainability requirements that TSC-Telos formulated as goals for each indicator (i.e. % of goal achievement). The sustainability goals are derived by TSC-Telos from EU and national regulations and experiences with municipal practices. The achievement percentages are subsequently combined per theme resulting in a theme achievement percentage. The average theme scores are subsequently 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.

For each municipality in The Netherlands an overall sustainability score is calculated, varying between 0-100% (in practice between 39-58% in 2016) achievement of the integrated sustainability goals.

2016 Methodology adjustments

TSC-Telos developed similar frameworks in 2014 and 2015 for BNG Bank, using the methodology applied in its annual Dutch National Monitor of Sustainable Municipalities. For the BNG Bank Sustainability Bond of 2016, TSC-Telos revised its framework to reflect recent change to the methodology of the National Monitor, published 26 September 2016⁶, and its outcome. In comparison to 2015, changes had to be made in (i) the number of indicators, a decrease from 107 to 105 indicators in 2016 reflecting the available information that could be reliably collected, and (ii) the number of Dutch municipalities decreased from 393 in 2015 to 390 in 2016, reflecting merges between small municipalities. The number of municipality types was not changed.

⁵ Please refer to Appendix 2 for a description of the Capitals, Themes and Indicators used in 2016.
⁶ www.telos.nl (in Dutch with English summary); Bastiaan Zoeteman, Pieter Tordoir, Rens Mulder, Ruben Smeets, Corné Wentink, John Dagevos, National Monitor Sustainable Municipalities 2016, A Step Forward!, Tilburg: Telos, Tilburg University, Document Nr 16.147.

3.2 Project Evaluation and Selection Process

The bond proceeds will be disbursed to the National Monitor 2016 ‘best-in-class’ municipalities, which is based on a compilation of the top rated 15 sustainable municipalities from each of the fourteen groups under which Telos has grouped Dutch municipalities to reflect changes in characteristics (‘municipal classes’⁷). Telos has identified eligible municipalities in a “List of Elected Sustainable Municipalities for the 2016 BNG Sustainability Bond”.

In 2016, the list includes 107 eligible municipalities out of a total of 390 municipalities. In principle, this list should include $14 \times 15 = 210$ municipalities. However, several municipalities qualify for more than one municipality type. When this is taken into account, a final list of 107 Elected Sustainable Municipalities results. This selection represents 27.4% of the total number of Dutch municipalities. This is a slight increase in comparison to 2015. For the 2015 Sustainability Bond, 97 out of 393 municipalities (24.6%) were eligible.

All 107 municipalities score 50% or higher on sustainability.

3.3 Management of Proceeds

The loans to which the proceeds will be allocated will be earmarked separately by tagging them with the ISIN code of the relevant BNG Bank Sustainability Bond. This ISIN code will facilitate easy identification of the loans that qualify based on the eligibility criteria. BNG Bank will not allocate bond proceeds to any other type of temporary investments.

3.4 Reporting

Allocation Reporting

BNG Bank has committed to reporting on allocation of proceeds to eligible municipalities on a project portfolio basis. BNG Bank has disclosed that the loans to which the bond proceeds will be allocated will be subject to internal and external auditing by PWC, to confirm alignment with eligibility criteria. Additionally, BNG Bank will also provide an annual performance report on its website.

Impact Reporting

TSC-Telos will prepare annually for BNG Bank an Impact Report to investors. This report will give an update on the sustainability scores of the 107 Elected Municipalities for the 2016 BNG Bank Sustainability Bond showing:

⁷ The Dutch National Monitor of Sustainable Municipalities 2016 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.

- performance of the group of Elected Municipalities compared to the previous year(s);
- a list of 'Elected Municipalities' showing the largest improvement or reduction in overall score and an indication of the main causes for these results;
- performance of the group of Elected Municipalities in comparison with the total group of Dutch Municipalities;
- more detailed performance reporting on changes for the group of Elected Municipalities at the level of the three capitals, selected themes and selected impact indicators of interest (e.g. CO₂ emissions in Kton for elected municipalities).

The Second Performance Report of the BNG Bank Sustainability Bond covering the years 2014-2016 was published in September 2016⁸ and is available on BNG Bank's website.

⁸ Second Performance Report (2014-2016) of Elected Dutch Sustainable Municipalities of the BNG Bank Sustainability Bond of October 2014, available via: https://www.bngbank.nl/Documents/Investors/Second_Performance_Report_2014_Sustainability_bond_Telos.pdf

4 SUSTAINALYTICS' OPINION

BNG Bank's approach: an incentive for municipalities to improve sustainability performance

BNG Bank's approach to provide investment 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 per sustainability capital. This is confirmed by the Second Performance Report of Elected Dutch Municipalities of BNG Bank Sustainability Bond. According to the Report, in the period 2014-2016 Dutch cities have made a step forward on the road to sustainability:

- (i) The average ecological capital score of the group of elected municipalities improved 1.8% points while the total group of municipalities also improved from the past years by 1.9% points; and half of the elected municipalities reduced their CO₂ emissions.
- (ii) The economic capital scores of elected municipalities improved 0.48% while the total group improved 0.83%.
- (iii) The socio-cultural capital improved to some degree for the group of elected municipalities (0.11%) but declined slightly for the total group (-0.09%).

Furthermore, the analysis shows that 70% of elected municipalities realized a stable or improved total sustainability score.

Sustainalytics' Opinion on the BNG Bank Sustainability Bond framework

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. Sustainalytics has a positive view on the methodology changes implemented. Namely, a more refined municipality typology has been introduced, which allows for benchmarking municipalities against similar municipalities within a category, using both a quantitative and a qualitative approach. Additionally, indicators have been revised based on relevance and availability of reliable data.

Based on a detailed review of the Capitals, Themes and Indicators analysed in the Sustainability Monitor Methodology, Sustainalytics is of the opinion that Telos National Monitor for Sustainable Municipalities is a useful and credible source for the requirements of BNG Bank in defining its 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 limitations. The methodology does not fully demonstrate the sustainability improvements of low-scoring municipalities. 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.

Furthermore, the methodology measures three capital domains using indicators that also correlate with factors like economic activity. For this reason, it is difficult to attribute improved environmental outcomes to the impact of the bond. For example, a better environmental score might not only be a result of improved environmental policies but it may also be an outcome of reduced economic activity that could have positively impacted environmental performance.

Despite the limitations described above, 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 process.

Sustainalytics' opinion on the use of the bond's proceeds

It should be noted that the proceeds of this bond are for general purpose use for the eligible sustainable municipalities. This is a deviation from ICMA's Green Bond Principles in that the eligibility criteria for the use of proceeds are based on the sustainability performance of the borrowing entity rather than funding green projects. Nonetheless, Sustainalytics is of the opinion that BNG Bank's approach will encourage municipalities to become more sustainable and strive to become 'best-in-class' municipalities. Furthermore, by focusing on top-performing municipalities, BNG Bank approach increases the likelihood of proceeds to be used to financing projects with good sustainability credentials.

Sustainalytics' opinion on impact reporting

BNG Bank commissioned TSC-Telos to provide the yearly Impact Reports, based on the yearly National Monitor Sustainable Municipalities Report. The second report covering the years 2014-2016 was published in September 2016. However, it should be noted that the nature of such reporting does not directly link the bond proceeds to the impact achieved by the municipalities, and therefore the reporting cannot be regarded as an indicator of the impact of the use of the proceeds of the bond. This limitation exists because of the way in which municipalities receive and allocate funds: funds from varied sources, such as the Dutch government, taxation and loans from financial institutions including BNG, are not separated. BNG has limited influence on the municipalities to create separate accounts. 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.

Secondly, it should be realized that the data available for the monitor reports of 2014 and 2015 in fact describes the situation of roughly two years before. So, this assessment report cannot yet detect any impacts of the BNG Bank Sustainability Bond. This report should, therefore, be a start of measurement, which helps to develop the assessment methodology and detect possible changes in scores that may occur without the intervention of the Sustainability Bond. On a positive note, according to Telos' Report, in the coming assessment periods more concrete impacts potentially related to the bond proceeds may be detected. For example, more insights regarding the type of investment projects might be disclosed as more information becomes available.

Contribution of the BNG Bank framework to the Sustainable Development Goals⁹

The development of sustainable cities is one of the UN Sustainable Development Goals (SDGs). At present, the Dutch government is translating the SDGs into national policy actions, leading to a decentralization of many of its activities to promote sustainability at the municipal level. The reduction of carbon dioxide (CO₂) 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. In the Netherlands, the Association of Dutch Municipalities (VNG) has signed an agreement in 2013¹⁰ with the national government and other parties to substantially reduce CO₂ emissions by 2020. Hence, investments from individual municipalities are expected the coming years.

Although the emphasis is still on activities that affect our climate and environment, municipalities are gradually moving to investment projects and policy initiatives where reducing environmental pressure is coupled with improving long-term economic profitability and social performance.

Alignment with Green Bond Principles 2016

Sustainalytics has determined that the BNG Bank Sustainability Bond 2016 is in line with the four pillars of the ICMA's Green Bond Principles 2016. For further information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

Conclusion

The Sustainability Bond aims to promote BNG Bank's investment in 'best in class' sustainable municipalities in The Netherlands based on a Sustainability Monitor Methodology developed by TSC-Telos. Sustainalytics considers this to be an innovative approach that provides incentives for municipalities to improve and better understand their overall sustainability performance. Sustainalytics is of the opinion that the assessment methodology implemented and the selection process is a robust process that ensures that bond proceeds will be directed to municipalities with stronger ecological, social and economic performance and that are more likely to use those funds to financing projects with good sustainability credentials.

Based on the above points, Sustainalytics considers BNG Bank's Sustainability Bond to be robust and credible.

⁹ NV Bank Nederlandse Gemeenten (BNG Bank) Sustainability Bond 2016 Framework

¹⁰ Energy Agreement for Sustainable Growth [Energieakkoord voor duurzame groei] referenced earlier in the document

APPENDICES

Appendix 1: Documents Reviewed

Sustainalytics reviewed the following documents for the purposes of writing this report

Number	Document Name
1	NV Bank Nederlandse Gemeenten (BNG Bank) Sustainability Bond 2016 Framework
2	First Performance Report (2014-2015) of Elected Dutch Sustainable Municipalities of the BNG Bank Sustainability Bond
3	Second Performance Report (2014-2016) of Elected Dutch Municipalities of BNG Bank Sustainability Bond
4	MVO-Beleid BNG Bank 2015
5	Nationale monitor duurzame gemeenten 2016: een stap vooruit!
6	www.bngbank.nl
7	www.telos.nl
8	Energy Agreement for Sustainable Growth (Energieakkoord voor duurzame groei)

Appendix 2: Sustainability Monitor Methodology 2016

The three pillars (capitals), the 19 themes and the 105 indicators used for quantitative monitoring

THEME	INDICATORS
ECOLOGICAL CAPITAL	
Soil	Urgent sites with unacceptable human risks, Manure- Nitrogen quantity produced, Manure- Phosphorous quantity produced
Air	Emission of CO ₂ , Emission of NO _x , Emission of Particulate Matter (PM2.5), Emission of Volatile Organic Substances, Concentration NO _x , Concentration of Ozone, Concentration of PM2.5
Annoyance and Emergencies	Noise intensity, Noise annoyance, Light intensity during the night, Annoyance by odors, Risk of road transport of dangerous chemicals, Land surface with a 10 ⁻⁵ risk contour, Earthquakes, Floods
Water	Ecological quality of surface water, Chemical quality of surface water, Nitrogen emissions to surface water, Phosphorous emissions to surface water, Drinking-water quality, Mixed sewerage system
Nature and Landscape	Share of forest and natural area, Distance of public green, Distance to inland recreational water, Biodiversity total, Biodiversity red list species
Energy and Climate	Wind energy, Solar energy, Average natural gas consumption households, Average electricity consumption households, Energy label houses, Average natural gas consumption businesses, Average electricity consumption businesses
Resources and Waste	Household waste, Organic waste, Paper and cardboard waste, Packaging glass, Plastic
SOCIAL-CULTURAL CAPITAL	
Social Participation	Cohesion, Volunteers, Turnout municipal elections, Turnout national elections, Informal care
Economic Participation	Financial assets household, Long lasting unemployment, Social assistance, Poor households
Arts and Culture	Distance to performing arts, National monuments, Municipal monuments, Distance to museum, Protected city/village views
Health	Insufficient exercise, Risky behavior, Distance to GP practice, Quality of hospitals, Distance to hospital, Life expectancy, Assessment of own health, Chronically sick people, Confused people
Safety	Violent crimes, Crimes against property, Youth crime, Vandalism, Road safety, Feeling of insecurity
Residential Environment	Housing deficit, Distance to daily goods and services, Satisfaction with living environment, Satisfaction with shops, Mutations in number of residents
Education	Youth unemployment, Distance to elementary schools, Distance to secondary education schools, Early school leavers, Real-time to diploma, Final examination mark, Education level population
ECONOMIC CAPITAL	
Labor	Employment function, Human resources exploitation, Unemployment, Rejuvenation and ageing, Incapacity for work

Spatial Local Conditions for Businesses	Stock business parks, Net/gross area ratio business parks, Share out of date business parks, Vacant office space, Vacant retail space
Competitiveness	Share starters, Bankruptcies, Gross Regional Product per capita, Share nationally promoted (top) sectors, Fast growing businesses
Infrastructure and Mobility	Access to public railway transport, Access to main roads, Number of charging stations for electric cars, Share of clean cars
Knowledge	Share highly educated people, Capacity science education/higher vocational education, High- and medium tech employment, Creative industry employment

Appendix 3: Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: N.V. Bank Nederlandse Gemeenten (BNG Bank)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: *BNG Bank Sustainability Bond 2016*

Review provider's name: Sustainalytics

Completion date of this form: November 14th, 2016

Publication date of review publication:

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 GBPs:

- | | |
|--|--|
| <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 nd 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 BNG Bank Sustainability Bond Framework and Second Opinion Document 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 Sustainability Bond 2016 proceeds will be used by BNG Bank to lend to 'best-in-class' sustainable municipalities in the Netherlands, as identified by the 2016 Telos Sustainability Monitor Methodology. The eligible municipalities will be defined as the 15 top-performing municipalities within each of the fourteen municipality categories defined by TSC-Telos. It should be noted that the proceeds of this bond are for general purpose use for the eligible sustainable municipalities. This is a deviation from the Green Bond Principles in that the eligibility criteria for the use of proceeds are based on the sustainability performance of the borrowing entity rather than on the nature of the projects to be funded. Nonetheless, Sustainalytics is of the opinion that the Bond will encourage municipalities to become more sustainable and strive to become top-performing municipalities. Furthermore, by focusing on these municipalities, BNG Bank approach increases the likelihood of proceeds to be used to financing projects with good sustainability credentials.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input checked="" type="checkbox"/> Other (<i>please specify</i>): proceeds will provide loans to 'best-in-class' sustainable Dutch municipalities. This rating is based on 107 indicators that measure ecological, social and economic performance. |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Telos has identified 107 eligible municipalities in a “List of Elected Sustainable Municipalities for the 2016 BNG Sustainability Bond. The top 15 municipalities within each of the fourteen municipality categories, adjusting for overlap, represent top-performing Dutch municipalities, a typical best-in-class approach. Sustainalytics considers that this is a robust and consistent process.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

The loans to which the proceeds will be allocated will be earmarked separately by tagging them with the ISIN code of the relevant BNG Bank Sustainability Bond. BNG Bank’s commitment to have annual audits carried out by external auditors is in line with best practices. BNG Bank will not allocate bond proceeds to any other type of temporary investments.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in a systematic manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING

Overall comment on section *(if applicable)*:
 BNG Bank has disclosed that the loans to which the bond proceeds will be allocated will be subject to internal and external auditing to confirm alignment with eligibility criteria. BNG Bank will also provide an annual performance report prepared by Telos. This report will give an update on the sustainability scores of the 107 Elected Municipalities for the 2016 BNG Bank Sustainability Bond. However, it should be noted that the nature of such reporting does not directly link the bond proceeds to the impact achieved by the municipalities and therefore the reporting cannot be regarded as an indicator of the impact of the use of the proceeds of the bond.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> GB financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
|--|--------------------------------------|

Other (please specify):

Information reported (expected or ex-post):

GHG Emissions / Savings

Energy Savings

Other ESG indicators (please specify):

Detailed performance reporting on changes for the group of Elected Municipalities at the level of the three capitals, selected themes and selected impact indicators of interest (e.g. CO₂ emissions in Kton for elected municipalities).

Means of Disclosure

Information published in financial report

Information published in sustainability report

Information published in ad hoc documents

Other (please specify): Annual Performance Reports of the BNG Bank Sustainability Bond elaborated by Telos

Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

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

See Reviewed Documents in Appendix 1 of this document.

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

Consultancy (incl. 2nd opinion)

Certification

Verification / Audit

Rating

Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (i) Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification,

verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

- (iii) Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

Disclaimer

All rights reserved. No part of this second party opinion (the "Opinion") may be reproduced, transmitted or published in any form or by any means without the prior written permission of Sustainalytics.

The Opinion was drawn up with the aim to explain why the analyzed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

SUSTAINALYTICS

Sustainalytics is the largest independent provider of sustainability research, analysis, and services to investors. We serve over 250 institutional investors which include some of the world's largest asset owners and asset managers. Through over 20 years of experience serving the responsible investment (RI) market, we have gained a reputation for providing high-quality ESG research solutions and excellent client service.

Sustainalytics is headed by seasoned professionals in the field of business, finance, and sustainability, with a wealth of experience in the Responsible Investment area. After more than 20 years of local experience and expertise in the Responsible Investment (RI) market Sustainalytics has developed a comprehensive understanding of trends and best practices and a solid process to assist organisations in integrating ESG considerations into their policies and strategies. We have worked with some of the world's financial institutions including pension plans, investment managers and banks providing customised support to help them achieve their RI objectives. Clients include ABN AMRO, APG, BBVA, BNP Paribas, Deutsche Bank, ING Bank, Lombard Odier, Lloyds Bank, Triodos Bank, UBS and over 250 other financial institutions and organisations.

Sustainalytics now has a staff of 250 employees globally, including over 120 analysts, with operations in Amsterdam, Boston, Bucharest, Frankfurt, New York, Paris, London, Singapore, Sydney, Timisoara, and Toronto, and representation in Brussels and Washington DC.



In 2015, Sustainalytics was named the Best SRI or Green Bond Research Firm by GlobalCapital. In December 2014, for the third year in a row, Sustainalytics was named best sustainable and responsible investment research firm in the Independent Research in Responsible Investment (IRRI) Survey, conducted by Thomson Reuters and SRI-CONNECT.

SUSTAINALYTICS At a Glance

Our Coverage

- Company ESG Research
4,500 Issuers
- Corporate Governance Research
4,000 Issuers
- Global Compact Research
20,000+ Issuers
- Product Involvement
40,000 Issuers
- Controversial Weapons Radar
40,000 Issuers
- Sector Research
42 Peer Groups

Our Team

Michael Jantzi, CEO

More than 250 staff members, including over 120 analysts with multidisciplinary and industry expertise

Shareholders: ABN AMRO MeesPierson, Michael Jantzi and senior staff, Mooncrest Holdings Limited, PGGM, Renewal Partners, Silver Box Holdings Limited and Triodos

Board Members:
Elsie Bos, CEO, PGGM

Alan Broadbent, CEO, Avana Capital Corporation

Melissa Brown, Partner, Daobridge Capital

Mike Musuraca, Managing Director, Blue Wolf Capital Partners LLC

Glen Saunders, Former board member and current senior adviser, Principles for Responsible Investment (PRI)

Georg Schürmann, Managing Director of Triodos Bank Germany

Our Offices

Offices in Amsterdam (Headquarters), Boston, Bucharest, Frankfurt, London, New York City, Paris, Singapore, Sydney, Timisoara, and Toronto. Representative offices in Brussels and Washington D.C.

Our Clients

Our 300+ clients worldwide include financial institutions, asset managers, mutual funds, pension funds, banks, insurance companies, international organizations and academic networks

.....