Annual Report

BNG Bank 2016

BANK

BANK

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Profile

BNG Bank is the bank for local authorities and public sector institutions. The bank is a committed partner and makes a sustainable contribution to minimising the costs of social provisions for the public.

BNG Bank's mission has been translated into the following strategic objectives: substantial market shares in the funding of the Dutch public sector and the semi-public domain and a reasonable return for its shareholders. Achieving these objectives requires an excellent credit rating, adequate risk management, a competitive funding position and effective and efficient operations. Corporate Social Responsibility is intrinsic to BNG Bank's core activities.

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 customised financial services, ranging from loans and advances and payment services to area development. BNG Bank also participates in public-private partnerships. By far the greatest part of the bank's lending is free of credit risk, because these loans are granted to or guaranteed by public authorities.

BNG Bank is **one of the world's most creditworthy** banks, with credit ratings **AAA** (S&P), **Aaa** (Moody's) and **AA+** (Fitch).

Founded in 1914, the bank is a statutory two-tier company under Dutch law ('structuurvennootschap'). The bank's shareholders are Dutch public authorities exclusively. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank is established in The Hague and has no branches.

After the State, the bank is one of the largest issuers in the Netherlands. BNG Bank-issued debt securities are rated AAA by Standard & Poor's (S&P), Aaa by Moody's and AA+ by Fitch. BNG Bank is considered one of the world's most creditworthy banks.

Selected financial data

SELECTED FINANCIAL DATA Amounts in millions of euros	2016	2015	2014	2013	2012
Balance sheet total	154,000	149,511	153,505	131,183	142,228
Loans and advances	87,576	89,366	90,732	92,074	90,725
– of which granted to or guaranteed by public authorities	79,304	80,159	81,036	81,701	79,666
– of which reclassified from the ‘Financial assets available-for-sale’ item	1,195	1,575	1,779	2,259	2,603
Shareholders’ equity[1]	3,753	3,739	3,582	3,430	2,752
– Hybrid capital	733	424	–	–	–
Equity per share (in euros)[1]	67.39	67.14	64.32	61.59	49.41

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1 Equity excluding hybrid capital.

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SELECTED FINANCIAL DATA

Amounts in millions of euros

	2016	2015	2014	2013	2012
Leverage ratio[2]	3.0%	2.6%	2.0%	2.3%	2.0%
Common Equity Tier 1 ratio[2]	26%	23%	24%	24%	22%
Tier 1 ratio[2]	32%	27%	24%	24%	22%
Total Risk-Weighted Assets	12,328	12,797	11,681	11,530	11,729
Profit before tax	503	314	179	397	460
Net profit	369	226	126	283	332
– Net profit attributable to the holders of hybrid capital	4	–	–	–	–
– Net profit available to shareholders	365	226	126	283	332
Profit available to shareholders per share (in euros)	6.62	4.06	2.26	5.08	5.96
Proposed dividend	91	57	32	71	83
Dividend as a percentage of the consolidated net profit available to shareholders	25%	25%	25%	25%	25%
Dividend per share (in euros)	1.64	1.02	0.57	1.27	1.49

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2 The solvency ratios (the leverage, BIS Tier 1 and BIS ratios) were calculated and presented in accordance with the applicable Basel II regulations up to and including 2013. The CRD IV/CRR regulations apply from 1 January 2014 and the solvency ratios (leverage ratio, Common Equity Tier 1 ratio and Tier 1 ratio) have therefore been calculated and presented on the basis of these regulations. The comparative figures have not been adjusted in line with the new regulations.

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SELECTED FINANCIAL DATA

Amounts in millions of euros

	2016	2015	2014	2013	2012
SOCIAL					
Number of staff (in FTEs) at year-end[3]	292	285	278	273	279
– of whom employed by subsidiaries	15	25	27	29	36
Sickness absence	3.4%	2.9%	2.4%	2.8%	2.8%
Funding raised by means of SRI bonds (in billions of euros)	1.56	0.65	0.50	–	–
ENVIRONMENT					
CO_2 emissions (total, in tonnes)	506	511	480	560	585
Per FTE (in tonnes)	1.7	1.8	1.7	2.1	2.1
Electricity consumption (MWh)	1,392	1,593	1,564	1,480	1,401
District heating (GJ)	3,372	2,473	2,220	2,939	2,326

[3] Starting in 2016, the FTE of positions for which a 40-hour working week has been agreed is determined on the basis of a 36-hour working week, resulting in > 1.1 FTE. The number of FTEs consequently increases by more than 7.

Foreword

Despite the improved economic climate in 2016, the challenges for clients and other stakeholders of BNG Bank remained substantial. As a committed partner, we closely follow the developments among municipalities, housing associations, healthcare institutions and other clients.

Municipalities find themselves in a difficult position. On the one hand, there is great confidence in municipalities' performance in executing their duties. The central government has devolved a large number of tasks to municipalities because they are closer to citizens and are therefore better placed to serve them effectively and efficiently. On the other hand, dependency on central government and the Municipal Fund has increased further and municipalities are subject to targets imposed by the central government. The decentralisation of care tasks increased the number of administrative problems experienced by municipalities and care providers. As a result, a limited number of parties even defaulted on timely filing of their financial statements for 2015. While this can have implications for their revenues, it will not affect the strong relationship between these parties and BNG Bank.

The **policy measures** taken to cushion the impact of the **housing association tax** are proving effective, but also resulted in **less investment** in new developments as well as in existing properties.

Housing associations also benefit from the affordable financing provided by BNG Bank. The financial position of this client group improved in the previous year. The policy measures taken by this group to cushion the impact of the tax on housing association are proving

This has brought the **limits** of the role BNG Bank is willing to play in the healthcare sector **into view**.

effective, but also resulted in fewer investments in new developments as well as existing properties. Pressure on the availability of social housing continues to be high, however, and was a very topical issue in 2016 also. The healthcare sector presents itself as a complex field combining various interests that is subject to a substantial regulatory burden. Central government has scaled back its role in many aspects of this sector and to the extent possible places financial risks with the parties themselves. Given the sector's risk profile, lenders in the healthcare market are reluctant to provide funds. BNG Bank, by contrast, has played a relatively large role in recent years, and has significantly increased its market shares as a result. This has brought into view the limits of the role the bank is willing to play in this sector.

The term 'sustainability' is part of our core values and was defined further in the year under review. We maintain a broad definition of 'sustainable' by endeavouring to achieve a viable balance between environmental interests, economic interests and social interests, also for the benefit of future generations. Our strategy formed the basis for a raft of initiatives designed to meet the demand in society for increased investment in sustainable growth. Together with stakeholders, important steps were taken to more fully and explicitly define our role as a committed partner for a sustainable society.

Our ambition is to further improve the sustainability of our credit portfolio. Steps taken to make public real estate more sustainable still lag behind the targets set out in the National Energy Agreement. One problem is that investments to increase the sustainability of public real estate are not always commercially viable in the short term. BNG Bank is consulting with the relevant ministries and the sectors concerned about how to further promote sustainability.

In addition to providing balance-sheet financing for sustainable investments by clients, we also funded various sustainable projects in the year under review. The sustainable project financing portfolio had grown to almost EUR 1 billion by the end of 2016. Cooperation with specialised parties and the use of standardised contracts increasingly enhance our ability to efficiently combine smaller scale projects, thereby increasing their effectiveness.

In October, in support of the government intention to boost investment in energy transition, BNG Bank launched an Energy Transition Financing Facility (ETFF) in cooperation with the Ministry of Economic Affairs and the Netherlands Investment Agency (NIA). The ETFF will initially provide EUR 100 million in the form of subordinated loans for energy transition projects that do not currently qualify for financing due to their inadequate level of risk-bearing capital. These include geothermal, energy-saving, energy storage and biomass projects, for example. In addition to asset sustainability improvement measures, we also took steps to further increase the sustainability of the liabilities side of our balance sheet in 2016. In 2016, the bank issued two sustainable bonds to raise funds for sustainable housing associations and sustainable municipalities. Since 2014, the bank has issued a total of four sustainable bonds for a combined amount of EUR 2.7 billion, making it one of the leaders in this field within the Dutch banking sector.

At the end of 2016, Oekom Research, a rating agency in the field of sustainable investment, awarded BNG BANK a rating of C 'prime'. The 'prime' qualification means that Oekom categorises the bank's shares and bonds as sustainable investments. Oekom highlights, among other things, the strong social aspect of the bank's loan portfolio and the initiatives aimed at providing funds for sustainable investments. As a principal area for improvement, Oekom states that the bank should explicitly embed guidelines and standards on sustainability in the credit process.

The bank's financial ratings remained high during the year under review. To provide clients affordable financing, BNG Bank must under all circumstances be able to acquire funding at low interest rates. This means that the bank's excellent creditworthiness – comparable to that of the Dutch government – must always be safeguarded. Against this background, it is worth mentioning that at the end of 2016 BNG Bank was once again voted one of the world's safest banks by the international magazine 'Global Finance'. The bank's strong position was confirmed at the end of 2016 by the satisfactory result it obtained in the stress test that European banks of national systemic importance underwent the previous July. Thanks in part to the EUR 733 million in additional hybrid capital the bank was able to raise, BNG Bank already complies with the European minimum requirement for a leverage ratio of 3%, which will become effective from 1 January 2018. In general

The **sustainable project financing** portfolio grew to almost **EUR 1 billion** by the end of 2016.

terms, this represents equity as a percentage of the balance sheet total. The possible changes in this minimum requirement nonetheless remain a point of considerable attention.

> BNG Bank **already complies** with the European **minimum requirement** of a **leverage ratio** of **3%**, which will become effective from 1 January 2018.

While the business model of a 'promotional bank' justifies a lower leverage ratio for BNG Bank, the possibility of a higher requirement cannot yet be discounted. The constant changes in and intensity of regulations continue in any event to seize the attention of BNG Bank, which performs its role as one of the five banks of national systemic importance in the Netherlands with a limited number of employees.

Last year, BNG Bank sold its asset management activities to a.s.r., a strong and reliable party in the field of asset management. The sale safeguards the continuity of services to our clients and gives the employees involved the opportunity to use their expertise in the interest of a larger target group.

One development that affects clients and employees alike is digitisation. We are constantly working to improve the effectiveness and efficiency of our services to clients. In the year under review, among other things, this resulted in the introduction of the Digipass for payment transactions. In addition, steps were taken to optimise the credit process and the client portal, steps which continue to bear fruit in the coming years. Our objective is to accomplish our mission efficiently, which will translate into low lending rates. We aim to achieve a reasonable return, rather than maximise profit. Against the background of continuing high market share among its core client groups, the bank achieved a turnover in 2016 of EUR 10.2 billion. Partly as a result of non-recurring factors, net profit in 2016 rose by EUR 143 million to EUR 369 million.

For 2016, within the context of the Global Reporting Initiative, the bank reported in accordance with the GRI G4 comprehensive approach. In line with the IIRC international reporting standard, the bank's financial performance and social contributions are integrated in a single report. This has resulted in a change in the structure of the Report to reflect more clearly the added value that the bank has for society and how the bank has structured the dialogue with its stakeholders. The bank's refined sustainability policy can be found at bngbank.com.

On behalf of the Executive Board, I would like to thank our shareholders, clients, suppliers, Supervisory Board members, employees and other stakeholders for their contribution to BNG Bank's performance in the past year. The value of BNG Bank's strategy was once again demonstrated in the past year, and is one of the reasons why we also have confidence in the year ahead.

On behalf of the Executive Board,

CAREL VAN EYKELENBURG
CHAIR

The Hague, 10 March 2017

Organisation

MANAGEMENT[4]

C. (CAREL) VAN EYKELENBURG [b. 1952]
CHAIR OF THE EXECUTIVE BOARD

- **P.J.E. (PAULINE) BIERINGA** [b. 1959]
  MANAGING DIRECTOR OF PUBLIC FINANCE
- **F.C.M. (FRANK) JANSE** [b. 1966]
  MANAGER MARKETING AND COMMUNICATIONS
- **R.C.J. (RENÉ) DE JONG** [b. 1968]
  MANAGER INTERNAL AUDIT DEPARTMENT
- **A. (AART) RIETVELD** [b. 1965]
  COMPANY SECRETARY
- **J.C. (ANJA) VESTER-VOS** [b. 1960]
  MANAGER HUMAN RESOURCES

O.J. (OLIVIER) LABE [b. 1969]
MEMBER OF THE EXECUTIVE BOARD

- **P.A. (PETER) NIJSSE** [b. 1969]
  MANAGING DIRECTOR OF TREASURY & CAPITAL MARKETS
- **B.P.M. (BART) VAN DOOREN** [b. 1957]
  MANAGER CAPITAL MARKETS
- **H.E. (ERWIN) QUAST** [b. 1968]
  MANAGER LEGAL AND FISCAL AFFAIRS & COMPLIANCE

J.C. (JOHN) REICHARDT [b. 1958]
MEMBER OF THE EXECUTIVE BOARD

- **R. (REINIER) VAN WOERDEN** [b. 1958]
  MANAGING DIRECTOR OF PROCESSING
- **P.J. (PAUL) KORTLEVE** [b. 1969]
  MANAGER PLANNING AND CONTROL
- **H.R. (HANS) NOORDAM** [b. 1966]
  MANAGER RISK CONTROL
- **R.G. (ROLAND) WIJDOOGEN** [b. 1963]
  MANAGER CREDIT RISK ASSESSMENT
- **E.C. (ELSBETH) AUBEL-BEZEMER**[5] [b. 1977]
  MANAGER DATA & INFORMATION MANAGEMENT
- **T. (TIM) SEGBOER**[5] [b. 1974]
  MANAGER CAPITAL MANAGEMENT

4 Each member of the Executive Board is responsible for a number of directorates and (staff) departments. The directors and heads of department that report directly to the members of the Executive Board are indicated below. The organizational structure of risk management is set out in the Risk section of the Annual Report.

5 As of 16 May 2016.

COMPOSITION AND BACKGROUND OF THE EXECUTIVE BOARD [6, 7, 8]

C. (CAREL) VAN EYKELENBURG

Mr Van Eykelenburg was appointed an Executive Board member on 1 January 2005. He became Chairman on 15 October 2008 and was reappointed as Chairman on 15 October 2012 and 15 October 2016. In connection with his position at BNG Bank, Mr Van Eykelenburg is a Board member and Treasurer of the Dutch Banking Association (NVB) and Chair of the Supervisory Board of BNG Gebiedsontwikkeling BV, a BNG Bank subsidiary. He also is an Executive Board member of Stichting Pensioenfonds ABP and Chair of the Board of the W.F. Hermans Institute.

O.J. (OLIVIER) LABE

Mr Labe was appointed an Executive Board member on 1 May 2015. In connection with his position at BNG Bank, Mr Labe is Chair of the Supervisory Board of Hypotheekfonds voor Overheidspersoneel BV, a BNG Bank subsidiary. He is also a Supervisory Board member of ASR Vermogensbeheer BV.

J.C. (JOHN) REICHARDT

Mr Reichardt was appointed an Executive Board member on 15 October 2008 and reappointed on 15 October 2012 and 15 October 2016. In connection with his position at BNG Bank, Mr Reichardt is Chairman of the Supervisory Board of Data B. Holding BV, a Supervisory Board member of BOEI BV, a member of the Supervisory Affairs Committee of the Dutch Banking Association (NVB) and a Supervisory Board member of BNG subsidiaries Hypotheekfonds voor Overheidspersoneel BV and BNG Gebiedsontwikkeling BV. He is also a Supervisory Committee member of the RDW.

[6] The profile of the Executive Board is published on bngbank.nl. The duties and responsibilities of the Executive Board (members) are described in the Executive Board Rules of Procedure published on bngbank.nl. The desire for diversity on the Executive Board, also in terms of gender and age, is included in this profile and will be expressly emphasised during the recruitment and selection procedure. The aim of the recruitment and selection procedure is to select a suitable candidate who matches the Executive Board profile. The Executive Board is composed of three men. At the time of their appointment as members and Chair of the Executive Board, the Supervisory Board deemed that they were the best candidates for these roles. There were no vacancies during the year under review. As soon as a vacancy arises, a candidate will be sought who matches the Executive Board profile drawn up by the Supervisory Board.

[7] Executive Board members are in principle appointed for a four-year term of office and are eligible for reappointment in accordance with the Dutch Corporate Governance Code.

[8] In terms of the number of additional positions they may hold, Executive Board members are subject to the limitation regulations set out in the Capital Requirements Regulation and Directive (CRD IV) Implementation Act. In BNG Bank's opinion the Executive Board members comply with the limitation regulations. More detailed information can be found at bngbank.nl.

[9] The duties and responsibilities of the Supervisory Board (members) are described in the Supervisory Board Rules of Procedure published on bngbank.nl. Supervisory Board members are in principle appointed for a four-year term of office and are eligible for reappointment in accordance with the Dutch Corporate Governance Code. The profile of and retirement schedule for the Supervisory Board can also be found on bngbank.nl. All members of BNG Bank's Supervisory Board have

COMPOSITION AND BACKGROUND OF THE SUPERVISORY BOARD [9, 10, 11]

M. (MARJANNE) SINT [12, 13, 14] [b. 1949]
CHAIR

Former Chair of the Supervisory Board of Isala Clinics in Zwolle. Appointed on 20 August 2012, for a period of four years. Ms Sint is the Chair of the BNG Bank Supervisory Board and also serves as Chair of the NL Healthcare Supervisory Board and as a member of the Friesland/FBTO Zorgverzekeringen Supervisory Board.

J.J. (JAN) NOOITGEDAGT [15] [b. 1953]
VICE-CHAIR AND SECRETARY

Former Chief Financial Officer and Executive Board member of AEGON NV. Appointed on 23 April 2012, reappointed on 21 April 2016, for a period of four years. In addition to being a BNG Bank Supervisory Board member, he is Vice-Chairman of the TMG NV* Supervisory Board and a Supervisory Board member of Rabobank and Robeco Groep NV.

C.J. (KEES) BEUVING [12, 13, 15] [b. 1951]

Former Executive Board Chair of Friesland Bank Holding NV. Appointed on 24 April 2014, for a period of four years. Mr Beuving is a BNG Bank Supervisory Board member and also serves as Chair of the Supervisory Board of BPF BouwInvest BV and as a member of the Delta Lloyd Bank Supervisory Board.

L.M.M. (LUCAS) BOLSIUS [14] [b. 1958]

Mayor of the Municipality of Amersfoort. Appointed on 24 April 2014, for a period of four years.

T.J.F.M. (THEO) BOVENS [14] [b. 1959]

King's Commissioner for the Province of Limburg. Appointed on 23 April 2012 and reappointed on 21 April 2016 for a period of four years.

J.B.S. (JOHAN) CONIJN [14] [b. 1950]
Extraordinary Housing Market professor at the University of Amsterdam and Director of Real Estate Management at Ortec Finance. Appointed on 23 November 2015, eligible for reappointment in 2020. Mr Conijn is a BNG Bank Supervisory Board member and also serves as a member of the Investment Committee of Amvest Residential Core Fund.

P.H.M. (PETRI) HOFSTÉ [15] [b. 1961]
Former Executive Board member and Chief Financial and Risk Officer of APG Groep NV. Appointed on 22 April 2013 and eligible for reappointment in 2017. Ms Hofsté is a BNG Bank Supervisory Board member and also serves as a member of the Supervisory Boards of KAS Bank NV*, Achmea BV and Fugro NV* and Rabobank.

J. (JANTINE) KRIENS [12, 13, 14] [b. 1954]
Chair of the VNG Executive Board. Appointed on 24 April 2014, eligible for reappointment in 2018.

J.C.M. (JAN) VAN RUTTE [15] [b. 1950]
Former Executive Board member at Fortis Bank Nederland and former CFO of the Executive Board of ABN AMRO Groep NV. Appointed on 23 November 2015, eligible for reappointment in 2020. Mr Van Rutte is a BNG Bank Supervisory Board member. In addition, he serves as the Chair of the Supervisory Board of SNS Bank NV and as a member of the Supervisory Board of ORMIT Holding BV.

A register containing all the additional positions held by the Supervisory Board members is published on bngbank.nl.

Dutch nationality. The Supervisory Board comprises three women and six men.

10 BNG Bank seeks to ensure the independence of its Supervisory Board members by adhering to the following guidelines: Supervisory Board members have never been employed by the company. They have no other business relationships with BNG Bank from which they could acquire personal gain. The Supervisory Board members receive a fixed annual remuneration, which is not dependent on the bank's performance in any year. The Supervisory Board remuneration regulations are published on bngbank.nl. 'Interlocking directorships' among the Supervisory Board members, or among the latter and Executive Board members, do not exist. Supervisory Board members hold no shares in the company.

11 Additional positions are only stated if they are managerial or supervisory positions that are relevant under the limitation regulations set out in the Capital Requirements Regulation and Directive (CRD IV) Implementation Act. In BNG Bank's opinion the Supervisory Board members,

with the exception of Ms Hofsté, comply with these regulations in terms of the number of additional positions. A transitional arrangement has applied to Ms Hofsté since her appointment as Supervisory Board member at Rabobank. Positions and additional positions with publicly listed companies in the Netherlands are shown with an asterisk (*).

[12] Member of the Selection and Appointment Committee as referred to in Article 16 of the Articles of Association.

[13] Member of the Remuneration Committee as referred to in Article 16 of the Articles of Association.

[14] Member of the Market Strategy Committee as referred to in Article 16 of the Articles of Association.

[15] Member of the Audit & Risk Committee as referred to in Article 16 of the Articles of Association.

WORKS COUNCIL

Composition until 1 March 2016.

S.D.P. (SELMA) HUIZER [b. 1968]
CHAIR

J.H. (JAAP) BOOM [b. 1951]
SECRETARY

F.B. (FRAN) BOON [b. 1975]

G.J. (GIJS) VAN DUFFELEN [b. 1978]

M.E. (MARJOLEIN) HOFSTEE [b. 1971]

J.P. (JEAN-PIERRE) KRAUS [b. 1970]

R. (RON) MOLINA [b. 1954]

V.G.W.H. (VICTOR) TJIA [b. 1974]

F.W.A. (FELIX) ZWETSLOOT [b. 1971]

WORKS COUNCIL

Composition from 1 March 2016.

S.D.P. (SELMA) HUIZER [b. 1968]
CHAIR

F.B. (FRAN) BOON [b. 1975]
SECRETARY

M.G.J. (MASCHA) BALTUS-PFENNINGS [b. 1971]

M.E. (MARJOLEIN) HOFSTEE [b. 1971]

T.E.T. (TERRENCE) ROEP [b. 1976]

V.G.W.H (VICTOR) TJIA [b. 1974]

A.T.B. (ARNOUD) TROE [b. 1974]

L.C. (LEO) VALKENBURG [b. 1961]

F.W.A. (FELIX) ZWETSLOOT [b. 1971]

Report of the Supervisory Board

2016: FOCUS ON SOCIETAL IMPACT

In 2016, BNG Bank **resolved problems** related to the financing of sustainable projects, thereby **enhancing** its **societal impact**.

As large parts of Europe slowly but surely overcome the financial crisis, and while the various elements of new (European) regulations have largely been implemented, the cards in the public sector financing landscape were reshuffled in 2016. The European Commission plans to set up a European capital markets union and intends to double the term and budget of the European Fund for Strategic Investments, with the aim of enabling the Fund to generate EUR 500 billion in investments in 2020. In the Netherlands, the government launched proposals for setting up a national investment bank, which the central government sees as a way of reducing the fragmentation of the stimulus measures for Small and Medium-sized Enterprises (SME) and achieving a breakthrough in the field of sustainable energy.

Against this background, the bank implemented the strategy recalibrated in 2015, which highlights in particular sustainability and a strong client orientation. An excellent credit rating, effective risk management, an excellent funding position as well as managing the bank's business as effectively and efficiently as possible remain the preconditions for BNG Bank in this regard. The new focal points in the strategy enabled the bank to respond to the changing circumstances. The Supervisory Board is satisfied with the results achieved in 2016. In 2016, BNG Bank actively worked to resolve problems identified in relation to the financing of sustainable projects, thereby enhancing its societal impact. The Supervisory Board discussed the progress of the recalibrated strategy at great length with the Executive Board and advised increasing the bank's visibility and its communication on the funding initiatives that have been initiated. The emphasis in the coming year will once again lie on fostering close cooperation with clients and stakeholders, promoting sustainability and enhancing internal knowledge sharing and flexibility.

Supervision and advice

SUSTAINABILITY/CORPORATE SOCIAL RESPONSIBILITY (CSR)

During the year under review, the Supervisory Board spoke in the context of the Annual Plan about BNG Bank's role as a partner committed to a more sustainable society. The Supervisory Board endorses the importance of this and welcomed the initiatives to play a greater role in promoting sustainability among the bank's clients and in implementing the Energy Agreement. The bank is involved in various wind and solar-energy projects and in sustainable public-private partnership (PPS) projects. These projects are expressly structured in such a way that they can be funded by European resources from the European Fund for Strategic Investments. There are currently several different initiatives in the field of renewable energy, for example. The Supervisory Board believes that the Energy Transition Financing Facility introduced in 2016 can provide an additional impulse to these initiatives. EUR 100 million in the form of subordinated loans was provided for geothermal, energy-saving, energy storage and biomass projects. This risk-bearing capital enables projects to be carried out that did not previously qualify for financing. The Supervisory Board was informed about the stakeholder dialogue held in 2016 and several points discussed in the context of that dialogue, in particular the suggestions by stakeholders for greater pooling of (smaller) project financing from the market and for providing expertise on sustainable projects. The Supervisory Board also approved BNG Bank's sustainability policy as published on bngbank.com. In the assessment of the bank's sustainability policy,

The Supervisory Board endorses the importance of a **more sustainable society** and welcomes BNG Bank's willingness to play its role in **promoting** sustainability among its clients.

the market shares and return on equity count as key indicators. These key indicators of the theme ‘A Safe Bank’ reflect the bank’s social relevance. The market share and return objectives were achieved in 2016. The Supervisory Board is pleased to note that for 2016 the bank once again reported in accordance with the GRI G4 comprehensive approach, within the context of the Global Reporting Initiative.

STRATEGY

One of the core tasks of the Supervisory Board is to monitor and advise on the implementation of BNG Bank’s strategy. Providing affordable, solvency-free lending remains the bank’s core business activity. However, the many uncertainties in and the increasing complexity of the public sector call for a pro-active niche bank with a high level of specialised knowledge. The Supervisory Board believes that the bank must constantly adapt to new circumstances in order to retain its central role in funding the public sector. The Board expects management and employees to engage in intensive contact with clients and shareholders in this regard.

The Executive Board informed the Supervisory Board at great length in the year under review about the recalibrated strategy and details of its implementation. The Supervisory Board finds that the principal strategic objectives were achieved in the year under review. In relation to the ‘Closer to the client and shareholder’ objective, for example, a business case was developed for the bank to act as an export credit refinancing body under the export credit guarantee scheme (EKG) operated by the Dutch State, and a Global Loan in the amount of EUR 250 million in 2016 and EUR 250 million in 2017 was agreed with the EIB, which will be used to fund specific lending by BNG Bank. Regarding the Sustainability objective, the Supervisory Board was informed about the bank’s current position in relation to sustainable bonds. The Supervisory Board endorses the priority given to assisting in achieving the ambitions under the National Energy Agreement in relation to sustainable lending. The same applies to the tightened policy for sustainable business practices and sustainable procurement that will be rolled out in 2017. With respect to the ‘knowledge sharing and flexibility’ objective, the Supervisory Board follows with interest the plans to improve the organisation of internal knowledge sharing, to shorten the time-to-market of new services and products and to enhance cooperation as part of the process. In 2016, the bank undertook a critical analysis of its credit process and had the interest rate risk framework implemented in the previous year reviewed by an external party. Further improvement of the support for the credit process is in progress. The bank has defined goals in terms of staff development, remuneration, mobility, diversity and sustainable employability. It is developing policy for these matters and is discussing them with its employees. The Supervisory Board is kept closely informed in this regard. The Supervisory Board also established with the Executive Board that, while initiatives had been started in certain areas, further progress in these areas was still necessary. The approval of policy on sub-areas of HRM, including the job classification system and mobility policy for current employees and policy for new employees as regards appointment, remuneration and other employment terms and conditions, has been delayed. Realisation of this policy is now expected in 2017.

A **full management review** was held, focusing on the management's qualities and areas for improvement.

The Supervisory Board notes that the actual achievement of the formulated ambitions asked much of management and employees in the previous year. Cooperation, flexibility and adaptability are more crucial than ever. The Board asked the Executive Board to what extent the current management style is still appropriate for the challenges the bank faces and the employees needed to meet them. It was decided to hold a full review, focusing on the qualities of management and the areas in which it can improve. The Executive Board will discuss the findings with the Supervisory Board in 2017.

The publication of the report 'Dutch Finance Institution for Economic Development' (Nederlandse Financierings-instelling voor economische Ontwikkeling) prompted the Supervisory Board to invite the authors to explain their proposals in more detail. The Board found it a compelling report, which makes clear that there is insufficient scope for getting social, or public, investments in large projects off the ground and that the subsidy and guarantee schemes for developing new initiatives (including in the SME sector) are too fragmented. However, the Board had fundamental doubts about the proposed solution in the form of establishing a new institute bringing together the sectoral banks incorporating BNG Bank, NWB Bank, the Enterpreneurial Development Bank (FMO) as well as various programmes of the Netherlands Enterprise Agency. The Board was concerned that an institutional concentration will deflect too much attention from the necessary acceleration and improvement in the promotion of socially relevant investments. The members of the Supervisory Board believe that the intended goal can be achieved more quickly and effectively by aggregating demand for sustainable investments and leveraging existing financing and guarantee possibilities to facilitate promising initiatives. The Supervisory Board believes that BNG Bank can play a role in this regard in line with the recalibrated strategy. The Board welcomes the fact that, in early 2017, the government made a recommendation to the Dutch Parliaments House of Representatieves that this line be followed.

EUROPEAN CENTRAL BANK (ECB) SUPERVISION

The Supervisory Board finds that the supervision rules and requirements are placing considerable pressure on BNG Bank's organisation. In 2016, this resulted in an increase of the workforce and a rise in staff costs; this is expected to continue in 2017. The changing requirements imposed by the external regulator also have an impact on the Board's agenda. In 2016, the Board discussed the follow-up of the Asset Quality Review (AQR) and the results of the new EBA stress test at length. The AQR gave an extra impulse to the subject of data quality, which already had the Executive Board's attention. Data quality has been added to the multi-year Data Insight programme in the bank's project portfolio and is part of the criteria which the Supervisory Board has adopted for the purpose of the assessment of the Executive Board's performance in 2016 and 2017. The Supervisory Board has established that implementation of the programme is on schedule. The ECB's decision to impose a systemic buffer for BNG Bank was also discussed. The bank has been designated an 'institution of national systemic importance' by the ECB, which implies that BNG Bank is required to maintain a systemic buffer equal to 1% of risk-weighted assets. The Audit and Risk Committee (ARC) and the Board also discussed current supervisory issues on various occasions in 2016. Thus, in-depth consideration was given to the bank's Recovery Plan and the Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP) as part of discussions on the 2016 Supervisory Review and Evaluation Process (SREP). The Board discussed the results of the thematic review on risk governance and risk appetite and followed up the points in relation to the governance of the Supervisory Board. The Board decided to split up the Audit and Risk Committee. This decision represents acknowledgement by the Board of a development in social perceptions of audit and risk management and also meets a request expressed by the regulator. The Board expects that this will result in a sharper focus on specific topics. A separate Audit Committee (AC) and a Risk Committee (RC) were established on 1 January 2017, each with their own composition and responsibilities, which are laid down in the regulations governing the respective committees. The period between the AC/RC meetings and the Supervisory Board meetings was extended with effect from 1 January 2017. This gives the Board members more time to read the minutes of these committees and to carefully weigh the recommendations made. The ARC and the Supervisory Board also reviewed the minutes of the tripartite talks between the regulator, the external auditor and BNG Bank.

Organisation

COMPOSITION OF THE SUPERVISORY BOARD

To view the Supervisory Board profile and expertise matrix, please visit bngbank.nl. The profile of the Supervisory Board remained unchanged in the year under review. The composition of the Supervisory Board is in line with the Supervisory Board profile. The composition of the Supervisory Board is included in the section ‘Organisation’. This section provides the details of each member that are relevant to the fulfilment of their duties as Supervisory Board member.

In conformity with the retirement schedule, Mr Bovens and Mr Nooitgedagt stepped down as Supervisory Board members and were eligible for reappointment in that role in 2016. The General Meeting of Shareholders did not make use of the opportunity to recommend persons for appointment as members of the Supervisory Board to fill these vacancies. Based on the individual profiles, Mr Bovens and Mr Nooitgedagt were nominated and reappointed as members of the BNG Bank Supervisory Board on 21 April 2016 by the General Meeting of Shareholders. The ECB has declared that it has no objection to the reappointment of both members of the Board. In 2016 the shareholders also took note of the individual profiles drawn up after it was announced that Ms Hofsté and Ms Sint would retire by rotation in 2017. In conformity with the retirement schedule, both were eligible for reappointment. Ms Sint has confirmed that she is willing to be reappointed.

COMPOSITION OF THE EXECUTIVE BOARD

To view the Executive Board profile and allocation of responsibilities, please visit bngbank.com. The profile of the Executive Board remained unchanged in the year under review. The composition of the Executive Board is in line with the Executive Board profile. The composition of the Executive Board is included in the section 'Organisation'. This section provides the details of each member that are relevant to the fulfilment of their duties as Executive Board member. The Supervisory Board decided to reappoint Mr Van Eykelenburg as Chair of the Executive Board and Mr Reichardt as a member of the Executive Board with effect from 15 October 2016.

CONTACTS WITH INTERNAL AND EXTERNAL STAKEHOLDERS

Increasingly, the Supervisory Board – as well as the Audit & Risk Committee – involves individuals from the management layer below the Executive Board in specific agenda items and in the context of its own professional development.

The Supervisory Board was represented at two of the seven consultative meetings between the Executive Board and the (Group) Works Council. The topics discussed at this meeting included the progress towards implementation of the recalibrated strategy and policy, the development of the bank's results and the review of the bank's remuneration policy. Outside the consultation meetings, the plenary Supervisory Board meets with the Works Council once a year during a joint lunch highlighting certain issues. The Supervisory Board sees the contacts with the Works Council as constructive and appreciates the good working relationship and open dialogue between the Executive Board and the Works Council. The Supervisory Board's contacts with the shareholders are conducted via the General Meeting of Shareholders, in which the Board renders account for its supervision. In addition to the annual General Meeting of Shareholders, an extraordinary General Meeting of Shareholders was held in 2016 in connection with the adoption of the recalibrated Remuneration Policy for the Executive Board and the review of the Remuneration Policy for the Supervisory Board.

The Treasury of the Ministry of Finance is responsible for the administration of the state-owned enterprises and promotes the interests of BNG Bank's primary shareholder. Once a year, a meeting is held between the primary shareholder and the Chair of the Supervisory Board of each state-owned enterprise, at which the affairs of the company concerned are discussed. Such a meeting was also held with the Chair of BNG Bank's Supervisory Board in 2016. The discussions focused in particular on the report titled ‘Dutch Finance Institution for Economic Development’, the remuneration policy and BNG Bank’s claims against HETA (formerly Hypo Alpe Adria Bank) guaranteed by the federal state of Carinthia. In addition, in a process of coordination and consultation, a delegation of the Board prepared the recalibration of the Remuneration Policy for the Executive Board with the Ministry of Finance, the Association of Netherlands Municipalities and the Association of Provincial Authorities. It also prepaired the review of the Remuneration Policy for Supervisory Board members with the Ministry of Finance.

Work practices of the Supervisory Board

NUMBER OF MEETINGS AND ATTENDANCE

The Supervisory Board held six meetings in 2016. The meetings were attended by the Executive Board. A private session was held prior to each of these meetings. Three permanent education sessions were also organised for the combined members of the Supervisory Board. Lastly, the Supervisory Board met twice with representatives of the ECB, without the presence of the Executive Board, in the context of the annual policy discussion and the feedback of the results of the SREP.

The Supervisory Board has various committees. The Audit & Risk Committee (ARC) held four meetings in the year under review. All the regular ARC meetings were attended by the Chair of the Supervisory Board as well as the internal and external auditors. In addition, the heads of Risk Management and Finance & Control attend the ARC's meetings in order to clarify the reports prepared under their responsibility. A private session attended by the internal and external auditors was held prior to each of these meetings. The Selection and Appointments Committee convened on five occasions during the year under review, while the Remuneration Committee held four meetings. The Market Strategy Committee (CMS) held one meeting.

The attendance rate of plenary Supervisory Board meetings and meetings of the Supervisory Board committees recorded was 95% (2015: 98%).

SUPERVISORY BOARD

In addition to the plenary discussion of the topics prepared by the various committees, the following matters were discussed during Supervisory Board meetings: preparation of the Annual General Meeting of Shareholders, the results of the EBA stress test and the SREP decision for 2016, the project governance and project portfolio planning and the implications of new regulations for BNG Bank's activities. The Board has established that the bank is following up these matters adequately. It also held detailed discussions with the Executive Board on hedge accounting and established that the agreed methods were being observed in this regard. BNG Bank periodically demonstrates that the assumptions applied remain applicable. This is mainly of importance for determining the effectiveness, which can have a significant impact on the result.

The Board also ascertained that the auditor considers the application of multi-curve hedge accounting to be acceptable. Together with the Executive Board, the Board established that, in connection with IFRS 9, BNG Bank will switch to a new method for hedging in foreign currency instruments in a timely manner. The Board requested periodic updates on progress toward the introduction of IFRS 9. The Board discussed the value assessment of financial instruments at fair value through the income statement, in particular the so-called 'level 3 instruments'. The Board established that the auditor used its own valuation experts to assess the input and output of the bank's valuation models.

A third important topic of discussion between the Board and the bank concerns the credit risks and the related impairments. The Board found that the bank determined the provisions in a careful and consistent manner. Fraud and information security are important topics for the Supervisory Board. It considers the internal and external security monitoring of the services performed by the bank to be adequate. The auditor explained the importance of this topic to the Board in greater detail in a separate session. The aforementioned key audit matters (the valuation of financial instruments at fair value, impairment of loans and advances and the application of hedge accounting) were also discussed with the external auditor.

The Supervisory Board found that BNG Bank determined the provisions in relation to the **credit risks** and the related **impairments** in a **careful** and **consistent** manner.

Among other things, the plenary Board approved the 2015 remuneration report, the 2017 annual plan and budget as well as the 2017 risk appetite statement. As regards the variable remuneration granted, the Supervisory Board concluded that it is in line with the remuneration policy established by BNG Bank. The Board additionally deems it appropriate that the Executive Board reached agreement with the Works Council to abolish variable remuneration for employees with effect from 1 January 2017.

The Supervisory Board also discussed a number of strategic matters during the reporting period, including the development of the leverage ratio, the issue of hybrid capital, the report titled 'Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO)' and BNG Bank's response to this report. The Supervisory Board concluded that the Executive Board has acted in line with the recalibrated strategy with regard to these matters. During the past year, the Supervisory Board exchanged ideas with the Executive Board on how BNG Bank can make an even greater contribution to stimulating economic development in the Netherlands. Preconditions are that this is done within the framework of the Articles of Association and while retaining the status of 'promotional lender'.

The Supervisory Board endorses the strategic course that was followed and will continue to monitor the implementation and transformation process resulting from the tightened strategy in the coming period. Finally, a plenary meeting was held in which the Supervisory Board members were informed about the extension of the outsourcing contract with Centric FSS with effect from 1 January 2016. The Board shares the Executive Board's reasoning for once again opting for Centric FSS: the contract is balanced in terms of its content, the quality of Centric FSS's services can be expected to improve and the contract fee is expected to fall.

AUDIT & RISK COMMITTEE (ARC)

The ARC prepared the discussion by the plenary Supervisory Board concerning the Annual Report, the quarterly and interim figures and the management letters of the internal and external auditors, including the Executive Board's response. The main topics discussed were the development of BNG Bank's financial results and of its solvency and liquidity position, the credit loss provision, credit, market and operational risks, and the options for raising funding. In 2016, the ARC devoted particular attention to the preparation of multiple hybrid capital issues and to the impairment of a bond issued by HETA (the former Austrian bank Hypo Alpe Adria), guaranteed by the federal state of Carinthia. The ARC and the Supervisory Board consider that there are justifiable economic reasons for the

Executive Board's decision to sell the claim against HETA for a price equal to 90% of the original principal. The ARC took note of the results of the 2016 EBA stress test and reported on them to the Supervisory Board. Calculation of the effects of the worst-case ('adverse') scenario results in a CET1 ratio of 17.6% at the end of 2018 for the bank, which represents a relatively high result. The ARC nonetheless noted that in this scenario the CET1 ratio experiences a relatively sharp drop. This outcome is inherent in the bank's business model, however. For the time being BNG Bank assumes that it will need to comply with a 3% lower limit for the leverage ratio with effect from 2018. The ARC concluded that this ratio showed a positive trend in 2016. Partly on account of the hybrid capital issue, the bank's leverage ratio at the end of 2016 already reached the required level of 3%. The ARC endorses the Executive Board's policy on moving towards a higher leverage ratio. The desired buffer serves to absorb fluctuations in the leverage ratio as a result of external developments.

The ARC **endorses** the Executive Board's **policy** on moving towards a **higher leverage ratio**. The **buffer** is intended to **absorb fluctuations** resulting from external developments.

The ARC also prepared the decision-making by the plenary Supervisory Board on BNG Bank's risk appetite statement, the leverage ratio policy and the credit risk report on the bank's portfolio. Furthermore, the ARC discussed the 2015 Compliance Report, the 2015 Incidents Report, the 2017 Compliance Programme, the 2017 Internal Audit Department (IAD) Annual Plan, the external auditor's audit plan for auditing BNG Bank's 2016 financial statements and the reports on the tripartite talks between the regulator, the external auditor and BNG Bank.

During extra meetings, the ARC, in two so-called 'deep dives', went into several financial and risk-related topics at great length. One session was devoted to the ECB's Supervisory Review and Evaluation Process (SREP). Each year, the regulator assesses the outcome of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). The members of the Supervisory Board approved the manner in which BNG Bank's capital adequacy and liquidity adequacy are continuously monitored and compared to the bank's risk appetite and strategy. The results of the 2016 SREP were addressed by the ARC at a later stage.

A 'deep dive' on the bank's Recovery Plan was furthermore held in the presence of several Supervisory Board members. Despite the fact that the bank's recovery plan complied with the requirements of the regulator, BNG Bank nonetheless decided to subject the 2016 recovery plan to a major overhaul. The structure of the plan was fundamentally altered and details of governance were explicitly included. The recovery measures were also reassessed and revised. The ARC is satisfied with the contents of the 2016 recovery plan and believes that it has been elevated to a higher level. On the ARC's recommendation, the Supervisory Board approved the 2016 recovery plan, after which it was submitted to the regulator. The ARC has expressed the intention to hold further 'deep dives' on other subjects in 2017 as well.

The Chair of the Audit & Risk Committee periodically consults with the Manager of the IAD. The topics discussed during the year under review included the bank's strategy and performance, ECB supervision, the transition process regarding the new external auditor with effect from the 2016 financial year, the progress of the DataInsight project and the outsourcing of IT and Payment Services to insourcer Centric FSS. Consideration was also given to the activities carried out by the IAD, the progress of the audits and the IAD workforce. The IAD Management Letter and Annual Plan are discussed each year by the Supervisory Board and the Executive Board.

SELECTION AND APPOINTMENTS COMMITTEE

In 2016, the Committee carried out preparatory work on the reappointment of Mr Bovens and Mr Nooitgedagt. The Committee also drew up individual profiles in order to fill the vacancies arising in 2017 in connection with the retirement by rotation of Ms Hofsté and Ms Sint. In addition, the Committee advised the Supervisory Board on the division of responsibilities among the Board members and on the membership of the various committees. The division of responsibilities is set out in this Annual Report. The Committee carried out preparatory work on the reappointment of Mr Reichardt and Mr Van Eykelenburg and conducted performance interviews with all members of the Executive Board. The division of responsibilities among the Executive Board members and the additional positions they hold did not give the Committee any cause to make any comments. The Committee advised the Executive Board on the permanent education programme for the Supervisory and Executive Boards in 2016. Lastly, the Committee discussed the continuity of the membership of both Boards. Consideration was also given to a fall-back scenario in the event that an Executive Board member or a senior manager is absent for a prolonged period.

REMUNERATION COMMITTEE

Within the framework of the defined remuneration policy, the Remuneration Committee discusses the Executive Board's report concerning the achievement of the variable remuneration performance targets each year and advises the Supervisory Board on the variable remuneration payout percentage. This took place in 2016 for the year 2015. The Committee furthermore discussed the 2015 Remuneration Report and prepared the proposal to the Supervisory Board regarding the 2016 variable remuneration performance targets for the Executive Board. The Committee also discussed the annual report on BNG Bank's remuneration policy. This report addresses subjects such as the implementation of the remuneration policy in respect of the previous year, the highest variable remuneration during that year and a risk analysis of the remuneration policy, carried out by the Risk Management department. This risk analysis did not reveal any issues on which a Supervisory Board resolution was required or desirable.

> The **recalibrated remuneration policy for the Executive Board** satisfies the Supervisory Board's desire that **variable remuneration** be **abolished** for new Executive Board members.

Lastly, the Committee undertook preparatory work on the recalibration of the remuneration policy for the Executive Board and the review of the remuneration policy for the members of the Supervisory Board. The increase in the remuneration of the Executive Board as well as that of the Supervisory Board is now linked to any increase in the collective labour agreement for the banking industry. The recalibrated remuneration policy for the Executive Board furthermore meets the Supervisory Board's wish that variable remuneration be abolished for new Executive Board members. Abolition not only produces a substantial reduction in the regulatory burden attached to the remuneration policy, but also creates clarity and avoids discussions that harm the bank's reputation. The Supervisory Board will continue the system whereby targets are set annually for the Executive Board and in which the performance and functioning of the Executive Board are assessed. For the main aspects of the 2016 remuneration report and the recalibration of the remuneration policy for the Executive Board and adjustment of the remuneration policy for the members of the Supervisory Board, see the 'Remuneration Policy' section.

MARKET STRATEGY COMMITTEE

It was the Committee's responsibility to discuss the relevant developments concerning BNG Bank's client groups and the adequacy of the existing and potential services to these client groups. In 2016, the Supervisory Board decided that this responsibility should no longer lie with a committee. The Supervisory Board wishes to establish more direct contacts with clients. Accordingly, a meeting will be held once or several times a year between the plenary Board and stakeholders to discuss policy. A first meeting in this connection was already held in 2016 to discuss developments in the social housing sector, a client sector in which the bank traditionally enjoys a strong position and that will be affected by far-reaching changes due to the new Housing Act. Discussions were held with clients and persons responsible for policy at municipal level, among others, on the performance arrangements with housing associations (see the Professional Development section). This approach helps the Board fulfil its advisory role and forms a logical combination with the permanent education programme.

Assuring the quality of supervision

PROFESSIONAL DEVELOPMENT

The Supervisory Board members attend three permanent education (PE) programme sessions each year. Depending on the topic, both internal and external experts contribute to the PE sessions. The Board evaluates the effectiveness of the programme after the end of the reporting year. The Board determined which of the themes in the Dutch Banking Code had to be addressed in 2016. In 2016, the PE programme included a module on Corporate Governance and Integrity. The second component of the PE programme related to the theme of Audit. The third session included a visit to the municipality of Utrecht, during which developments in the housing association sector were discussed. With a few exceptions due to absence, all members of the Supervisory Board completed the permanent education programme.

GOVERNANCE AND INTEGRITY

The Supervisory Board had a meeting with Ms Brakman, chair of the Banking Code Monitoring Committee. An important topic of discussion was how BNG Bank, in light of its public role, can make an even greater contribution to public confidence in banks and their role in society. The Supervisory Board believes that BNG Bank is known as a niche bank for local authorities and public sector institutions. The bank's role and service are highly valued by stakeholders. The Board believes that, by strengthening the bank's profiling and by assisting the Netherlands' Bankers Association in driving agendas, it is possible to boost public confidence in the banking sector.

AUDIT

Mr Pheijffer, Professor of Accountancy at Nyenrode Business Universiteit and Professor of Forensic Accountancy at Leiden University, examined the public role of the auditor and the added value of the long-form independent auditor's report or audit opinion for the Supervisory Board.
He also considered the bank's Annual Report in relation to the inclusion of relevant information for shareholders and other stakeholders. The Supervisory Board concluded that there was scope for improving the information value in a number of areas.

HOUSING ASSOCIATION SECTOR

The Supervisory Board had a meeting with Mr Jansen (the alderman responsible for Housing in the municipality of Utrecht) and Mr van der Zeep (Portaal housing association board member) to discuss the performance agreements with regard to housing. The pressure on the housing market is increasing the need to enlarge the social housing supply. The affordability of social rented homes is also an important aspect in relation to performance agreements. The emphasis of investments on the availability and affordability of housing appears to be pushing the issue of sustainability increasingly into the background. The Supervisory Board understands that decisions in relation to sustainability must therefore be considered more explicitly in terms of affordability, since improved sustainability can lower energy bills.

As part of the commitment to permanent education, the Chair of the Supervisory Board attended an ECB conference on Governance in Frankfurt as well as a conference organised by the Netherlands Bankers' Association in autumn 2016 on the same topic.

The Executive Board members also participated in the Supervisory Board's permanent education programme. In addition, the Executive Board members undertook individual PE activities in 2016. One Executive Board member took part in the seminar on Innovation and Disruptive Technologies organised by Brainport Eindhoven/High Tech Campus in collaboration with the Singularity University, among other things. A second Executive Board member took part in the Annual Capital Management Forum and the Banking Risk and Regulation Summit, both of which were organised by Cefpro in London, among other things. A third member took part in a master class on the circular economy hosted by Kirkman Company, a Green bond round table session hosted by Rabobank, a Financial Institutions Conference organised by HSBC and the Eye on Banking seminar organised by EY. The PE activities undertaken were reported to the Supervisory Board and were discussed during the annual assessment interviews that the Chair and the Secretary of the Selection and Appointments Committee held with the individual members of the Executive Board. The Supervisory Board concluded that the Executive Board members meet the criteria set out in the Expertise Policy Rule of the AFM and the Dutch Central Bank.

REVIEW OF THE PERFORMANCE OF THE SUPERVISORY BOARD

The Supervisory Board evaluated its own performance and that of its various committees. To that end, an internal survey was completed in 2015 and the Chair of the Board held separate talks with each Supervisory Board member. The findings from the survey and the talks were discussed in a plenary meeting of the Supervisory Board in 2016. On this occasion, the Board explicitly addressed the interplay between the Supervisory Board and the Executive Board, the size of the Supervisory Board in relation to team effectiveness and the diversity of the Supervisory Board, and the effectiveness of the Board's various committees. The Board noted that increasing laws and regulations meant it was spending more and more time on monitoring activities. The supervisory role has been strengthened, partly in order to comply adequately and timely with the wishes and expectations of the external regulator.

The outcome of the evaluation of the Board and the discussion thereof resulted in several adjustments to the Board's work practices. The Supervisory Board wishes to devote more attention to strategic issues and BNG Bank's business. To this end, a generic adjustment was prepared to the meeting schedule of the Board, providing for the inclusion of, or plans to include, strategic items on the agenda. Lastly, in anticipation of forthcoming regulations, the Supervisory Board decided to split the Audit & Risk Committee into an Audit Committee and a Risk Committee, which are also (partly) made up of different members, with effect from 1 January 2017. In November 2016, the Supervisory Board once again evaluated its own performance under independent supervision. CPI Risk, Finance & Governance B.V. began by distributing a questionnaire among the members of the Executive Board, the members of the Supervisory Board and key figures. CPI followed this up by holding meetings with these persons, partly on the basis of their completed questionnaires, and observed two Supervisory Board meetings. The final report was discussed with the Supervisory Board in early 2017. The overall conclusion was that discussions within the Supervisory Board and its contacts with the Executive Board were characterised by an open atmosphere and constructive cooperation. Within this collaborative relationship, the Supervisory Board intends to consider its opportunities to further strengthen its role as a sparring partner and adviser to the Executive Board, with a particular focus on strategic issues and developments. In addition, the Supervisory Board aims to more clearly delineate the discussions within the Supervisory Board committees and how these are taken up in the plenary Board.

In the Supervisory Board's opinion, no situations occurred in 2016 that involved conflicting interests on the part of Executive Board members, Supervisory Board members, shareholders and/or the external auditor of material significance to the company and/or the relevant Executive Board members, Supervisory Board members, shareholders and/or the external auditor. In the view of the Supervisory Board, its members acted independently throughout the entire year 2016.

Remuneration

REMUNERATION POLICY FOR THE EXECUTIVE BOARD

The General Meeting of Shareholders adopted the remuneration policy for the Executive Board members on 5 October 2016. The policy is published in full on bngbank.nl. The adopted remuneration policy is applicable in its entirety to executives appointed after 1 January 2016.[16] The remuneration policy falls within the scope of the central government's remuneration policy for state-owned enterprises, the Dutch Corporate Governance Code, the Dutch Banking Code and the Regulation for Sound Remuneration Policies Wft 2015. The defined remuneration policy still provides solely for fixed remuneration for new members of the Executive Board, comprising 12 times the monthly salary plus holiday allowance. For two of the sitting members of the Executive Board, the fixed component of the remuneration consists of 12 times the monthly salary plus holiday allowance, with the annual variable remuneration being capped at 20% of the fixed remuneration. The third Executive Board member already receives fixed remuneration only. Each year, the Supervisory Board sets quantitative and qualitative targets for the variable remuneration. Each target is assigned a weight to indicate its importance. If the quantitative targets are met 'on target', 70% of the maximum variable remuneration is paid. At least 50% of the variable remuneration is based on non-financial targets.

[16] The existing employment contracts of executives appointed before that date are respected. Any room offered by these existing contracts to align remuneration with the aforementioned policy will be utilised.

ACHIEVEMENT OF THE 2016 VARIABLE REMUNERATION TARGETS

Following the Remuneration Committee's advice, the Supervisory Board determined the degree to which the 2016 variable remuneration targets had been met by the Executive Board members and concluded that the corresponding payout percentage would be 88.5% (2015: 100%). The Supervisory Board considers this result to be fair and did not use its discretionary authority to adjust the variable remuneration. In 2016, the Supervisory Board also concluded that there was no reason to consider exercising its authority to reclaim any variable remuneration awarded for previous years.

RESULTS OF THE 2016 REMUNERATION POLICY AND OUTLOOK FOR THE COMING YEARS

For an overview of the Executive Board members' remuneration, see the Related parties section of the consolidated financial statements. The Executive Board members receive an annual allowance for business expenses of EUR 3,900. No shares or options are awarded. The level of the 2016 variable remuneration falls within the pre-approved range of 0% to 20% of the fixed remuneration.

2017 ASSESSMENT CRITERIA FOR THE EXECUTIVE BOARD

BNG Bank's mission has been translated into the following strategic objectives: substantial market shares in the Dutch public and semi-public domain and a reasonable return for its shareholders. The Supervisory Board set the assessment criteria for the Executive Board for 2017 accordingly. In early 2018, the Supervisory Board will assess to what extent the Executive Board complied with these criteria. For the Executive Board members receiving variable remuneration, the associated payout percentage is a minimum of 0% and a maximum of 100%. If the payout percentage is 0%, no variable remuneration will be paid. If the payout percentage is 100%, the variable remuneration for 2017 will be 20% of the fixed remuneration. Half of the variable remuneration for 2017 awarded after the assessment will be deposited into a frozen account. Following reassessment, this amount will be paid in January 2021, provided that compliance with the criteria has not jeopardised BNG Bank's long-term continuity. For more information on BNG Bank's remuneration policy, see the 2016 remuneration report published on bngbank.nl.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration policy for Supervisory Board members applied until the end of 2016. The General Meeting of Shareholders adopted a new policy on 5 October 2016. The new policy applies to the period from 1 January 2017 to 31 December 2021, inclusive. Both the old and the new policy are published on bngbank.nl.

Audit

EXTERNAL AUDITOR

PricewaterhouseCoopers (PwC) is BNG Bank's external auditor. The external auditor attends Audit & Risk Committee meetings. The 2016 financial statements were likewise discussed in a Supervisory Board meeting which was attended by the external auditor. The audit plan for 2016, including the key audit matters, was discussed prior to the audit. The Supervisory Board welcomed the auditor's intention to pay particular attention to the impairment of credits, the fair value measurement of financial instruments and the application of hedge accounting by BNG Bank. The Supervisory Board discussed the financial statements, the Annual Report, the management letter and risk management policy with the Executive Board and the auditor. During these discussions, the auditor reported separately on the specific areas of attention defined. The findings were discussed by the Supervisory Board together with the external auditor and the Executive Board. In the opinion of the Supervisory Board, the external auditor provided all the relevant information to enable the Board to perform its supervisory duties. The auditor has issued an unqualified audit opinion on the financial statements. The appointment of the current auditor is effective from the 2016 financial year. The next four-yearly assessment of the external auditor's performance is scheduled for 2019.

PROPOSAL TO THE GENERAL MEETING OF SHAREHOLDERS

The Annual Report of N.V. Bank Nederlandse Gemeenten presented in this document includes the financial statements and the report drawn up by the Executive Board for the year 2016. The financial statements for 2016 have been given an unqualified audit opinion by PricewaterhouseCoopers. The sections relating to the corporate social responsibility reporting have been provided with an assurance report from PricewaterhouseCoopers. We propose to our shareholders that they adopt the financial statements and discharge the Executive Board members for their management duties and the Supervisory Board members for their supervisory duties, as reflected in the financial statements and the Annual Report. Upon adoption of the financial statements and the profit appropriation included in it, a dividend of EUR 1.64 per share with a nominal value of EUR 2.50 will be distributed for the 2016 financial year (2015: EUR 1.02).

A WORD OF APPRECIATION

The year 2016 was a very busy year for the bank. The Supervisory Board wishes to thank all the bank's stakeholders for their trust in BNG Bank and the Executive Board and all staff for their dedicated efforts and the results achieved in 2016, and remains fully committed to serving BNG Bank in 2017.

On behalf of the Supervisory Board

M. SINT
CHAIR

J.J. NOOITGEDAGT
VICE-CHAIR (AND SECRETARY)

The Hague, 10 March 2017

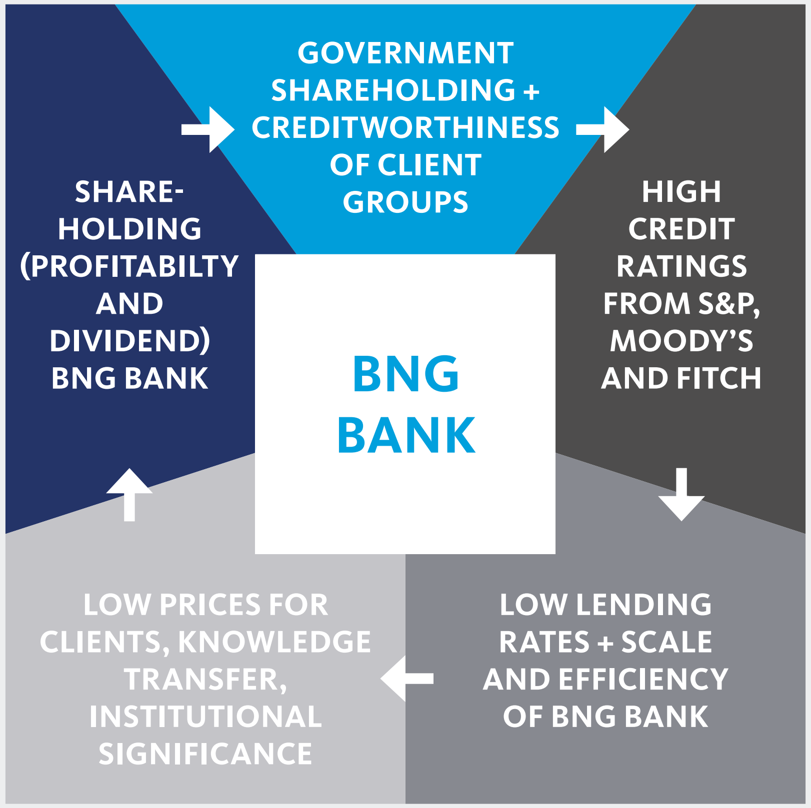
Report of the Executive Board

Our value to society

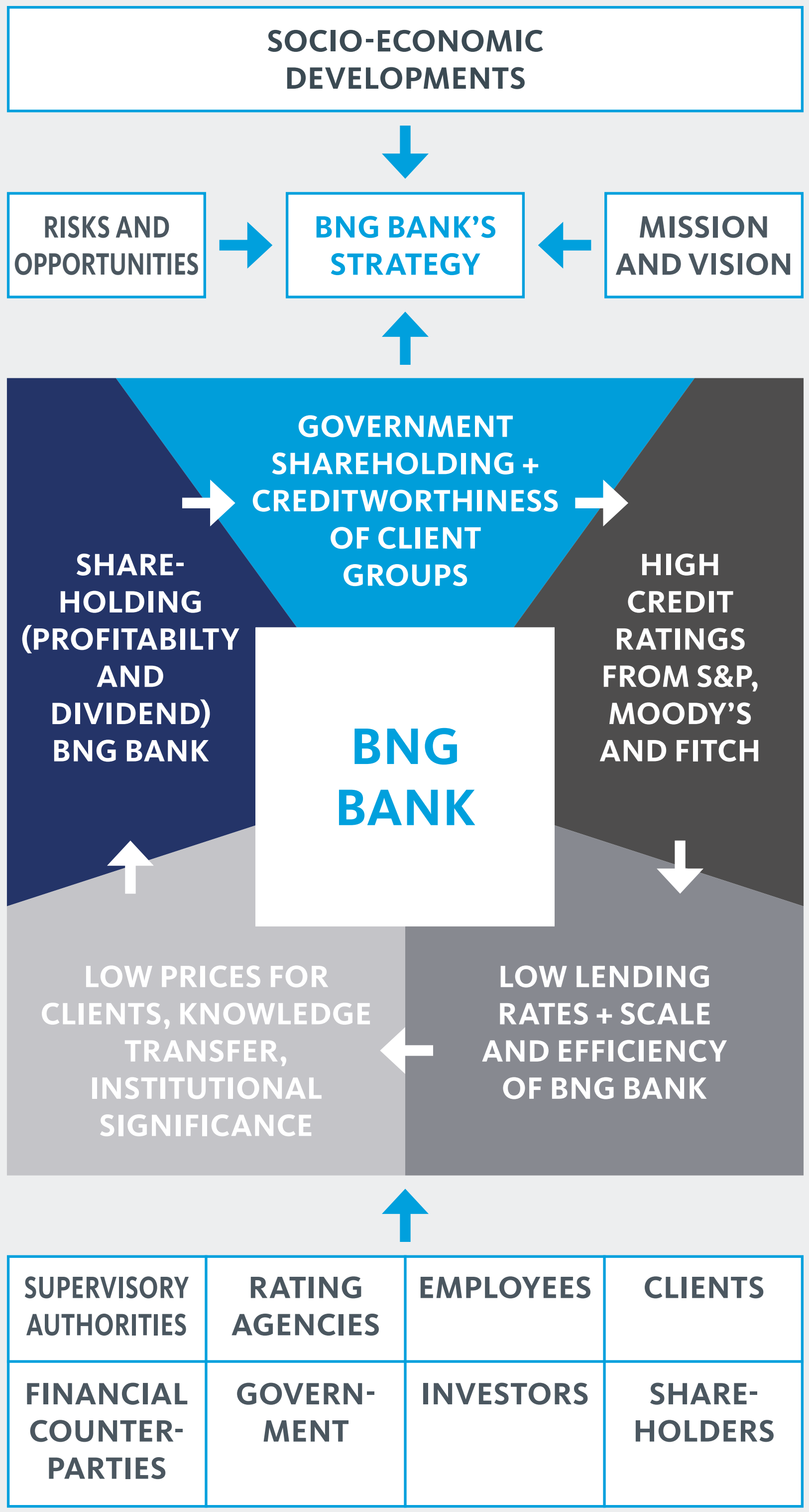
BNG Bank is the bank for local authorities and public sector institutions. The bank aims to be a committed partner and makes a sustainable contribution to minimising the costs of social provisions for the public. Sustainable, reliable and professional – these are BNG Bank's core values. The bank's core business is to provide low-cost credit to, or guaranteed by, public authorities in the Netherlands. The bank plays an important role in providing financing for social provisions deemed desirable by the public authorities. The bank works proactively with its clients on finding solutions for this financing and on implementing those solutions. The Strategy section elaborates in greater detail on the strategy and the strategic objectives. How does BNG Bank contribute to society? The following model, which is based on the model of the International Integrated Reporting Council, illustrates which elements are important in that process. These elements, and the references to sections in which the bank's performance with regard to these elements is explained, are shown in the diagram below. A more detailed explanation of the model can be found in BNG Bank's sustainability policy.

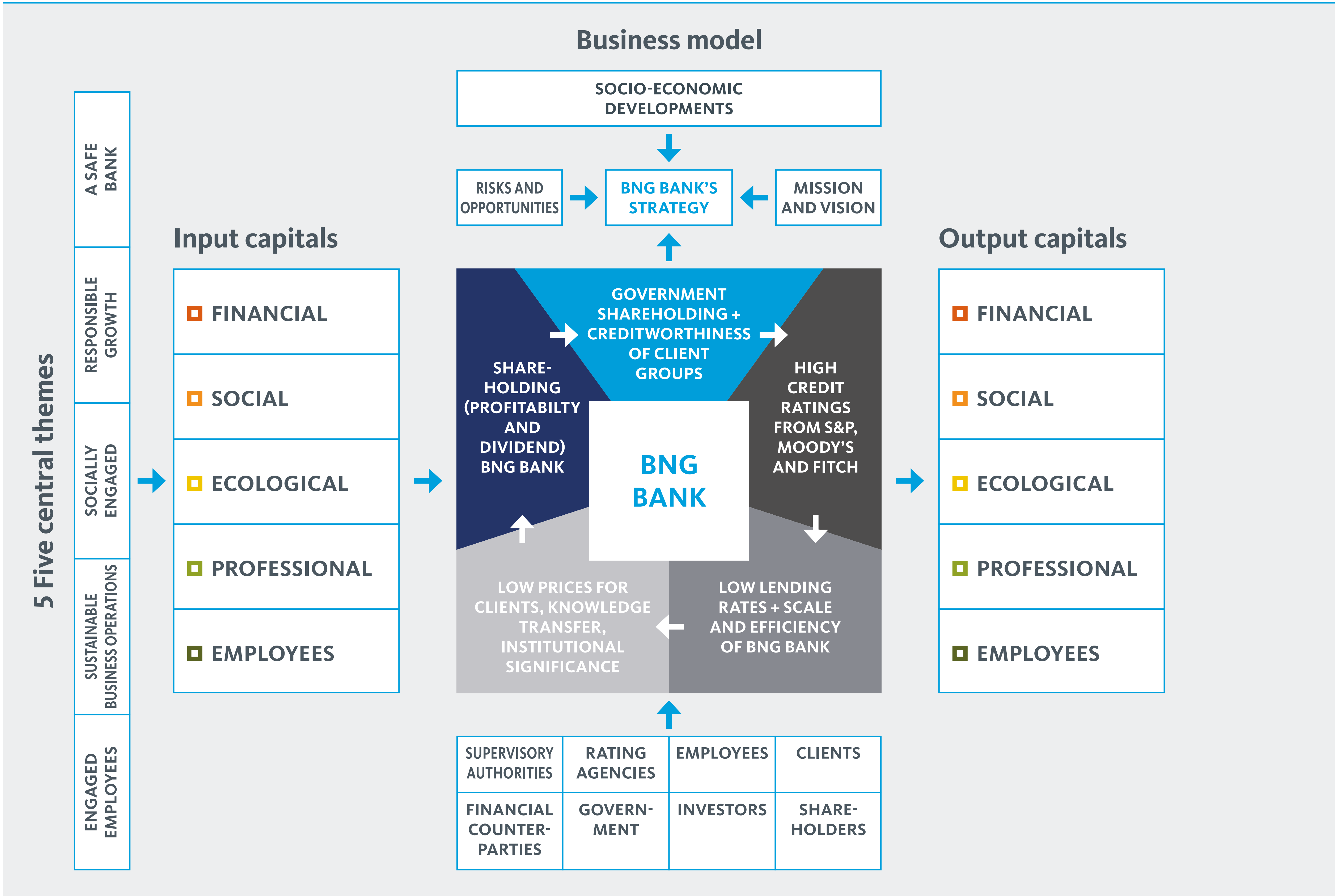
The five main themes of BNG Bank's sustainability policy – a safe bank, responsible growth, social engagement, sustainable business practices and committed employees – incorporate the elements of the value creation model.

Business model



Business model

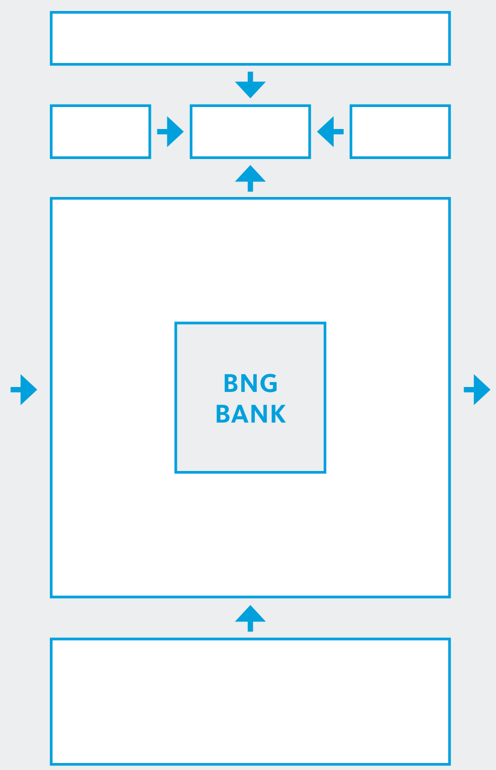



5 Five central themes
A SAFE BANK
RESPONSIBLE GROWTH
SOCIALLY ENGAGED
SUSTAINABLE BUSINESS OPERATIONS
ENGAGED EMPLOYEES
Business model
Input capitals
FINANCIAL
SOCIAL
ECOLOGICAL
PROFESSIONAL
EMPLOYEES
SOCIO-ECONOMIC DEVELOPMENTS
RISKS AND OPPORTUNITIES
BNG BANK'S STRATEGY
MISSION AND VISION
GOVERNMENT SHAREHOLDING + CREDITWORTHINESS OF CLIENT GROUPS
SHARE-HOLDING (PROFITABILTY AND DIVIDEND) BNG BANK
BNG BANK
HIGH CREDIT RATINGS FROM S&P, MOODY'S AND FITCH
LOW PRICES FOR CLIENTS, KNOWLEDGE TRANSFER, INSTITUTIONAL SIGNIFICANCE
LOW LENDING RATES + SCALE AND EFFICIENCY OF BNG BANK
SUPERVISORY AUTHORITIES
RATING AGENCIES
EMPLOYEES
CLIENTS
FINANCIAL COUNTER-PARTIES
GOVERN-MENT
INVESTORS
SHARE-HOLDERS
Output capitals
FINANCIAL
SOCIAL
ECOLOGICAL
PROFESSIONAL
EMPLOYEES

Input capitals

FINANCIAL

- Use of equity and borrowed capital to finance public authorities and public sector institutions



Output capitals

FINANCIAL

- Balance sheet total of EUR 154 billion
- Long-term loan portfolio of EUR 81 billion
- Lending volume of EUR 10.2 billion
- Substantial market share of 76%
- Return on equity of 11.5%
- Solvency ratios of 32%; 3.0%
- Dividend per share of EUR 1.64

Outcomes

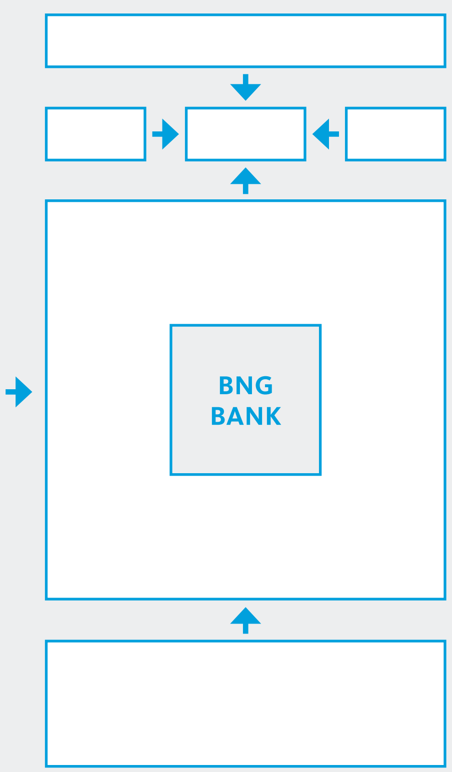
FINANCIAL

BNG Bank offers shareholders a fair return and provides long-term financing at low rates, underpinned by a solid risk management system. This helps keep the costs low for citizens and increases the feasibility of social projects. BNG Bank is always open for business, irrespective of the situation on the financial markets.

Input capitals

SOCIAL

- Good relations with and trust from clients and investors
- Paying attention to and asking about relevant client-related developments
- Excellent corporate governance and high integrity
- Participation in public-private partnerships



Output capitals

SOCIAL

- Share in financing for social rented housing in the portfolio of 49%
- Share in financing for local authorities in the portfolio of 37%
- Client satisfaction rated at 8.0 (2014)
- Promoting sustainability by issuing SRI bonds
- BNG Cultuurfonds activities
- Volunteering activities

Outcomes

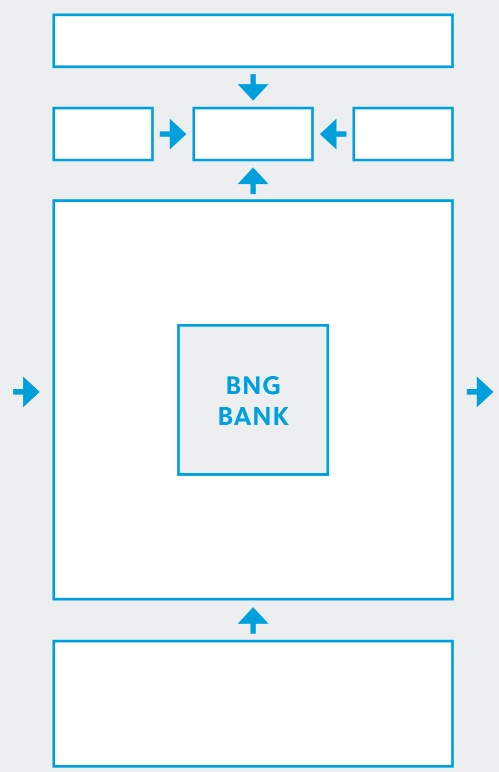
SOCIAL

The bank helps to keep the costs of social provisions low for citizens (rents, health insurance premiums, etc.) and thus makes a contribution to society by serving the public interest. Moreover, the bank helps to raise awareness among its clients of the implications of laws and regulations through consultations with the relevant bodies. With safe products, BNG Bank contributes to building public trust in banks. BNG Bank helps bring social projects to fruition.

Input capitals

ECOLOGICAL

- Raising SRI capital
- As an office organisation, BNG Bank uses a relatively limited amount of energy and raw materials for its processes
- BNG Bank uses 100% sustainable energy



Output capitals

ECOLOGICAL

- Promoting sustainability by issuing SRI bonds
- Environmental Impact financing
- Financing volume of sustainable projects
- CO_2 emissions equalling 506 tonnes
- Material procured sustainably

Outcomes

ECOLOGICAL

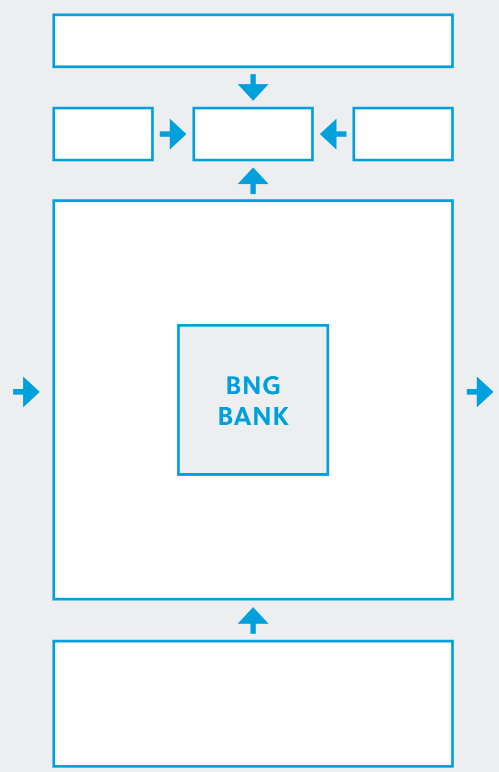
BNG Bank contributes to reducing CO_2 emissions by financing sustainable investments and contributing to the Energy Agreement.

Internally, the bank's sustainability ambitions are implemented by reducing the CO_2 footprint, saving energy and practising sustainable procurement.

Input capitals

PROFESSIONAL

- Experienced and competent employees with a thorough knowledge of financial sector and client-related developments
- Products and conceptual frameworks for financial issues



Output capitals

PROFESSIONAL

- Employee training
- Individual coaching programmes
- Enhancing cooperation with managers
- Organising client meetings

Outcomes

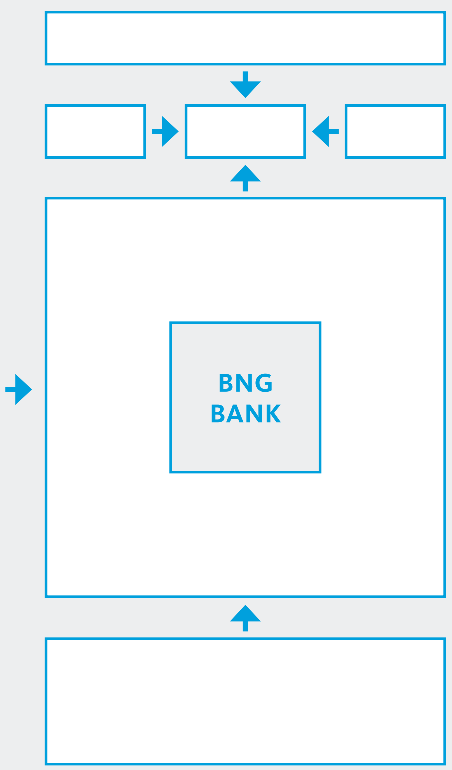
PROFESSIONAL

BNG Bank creates value for society by increasing the level of knowledge of its clients, thereby contributing to the financial stability and quality of both its clients and the public sector.

Input capitals

EMPLOYEES

- A cooperation-oriented and open culture
- Competitive terms and conditions of employment and a focus on employee health
- Employee training and development are cornerstones of HR policy; multidisciplinary and flexible employees



Output capitals

EMPLOYEES

- Employee satisfaction rated at 8 (2015)
- Women in management roles, 26%
- New policy on terms and conditions of employment
- Sickness absence at 3.4%
- Nine BNG Update Sessions a year
- Optimal manpower deployment based on quality and quantity

Outcomes

EMPLOYEES

BNG Bank is a recognised and respected employer that enables highly qualified employees to demonstrate their potential. We aim to promote sustainable employability and employee mobility to ensure job satisfaction and the well-being of our staff.

Our stakeholders and their expectations

Active dialogue with the various stakeholders is essential to enable the bank to successfully execute its mission and core values. The value creation model includes the stakeholders defined by BNG Bank. The bank's sustainability policy (see website) includes a perspective analysis in which an indication is given for each stakeholder group of which topics are critical factors in the relationship from their perspective and the bank's perspective, respectively. The topics identified in this analysis were clustered and included as sub-themes under the five themes of the bank's sustainability policy. The sub-themes are linked to one or more aspects of the Global Reporting Initiative (GRI 4), the reporting guideline forming the basis of BNG Bank's reporting.

Using nine GRI-based criteria, the aspects were weighted by BNG Bank and separately by an external party as a basis for selecting these so-called material themes. On this occasion, consideration was given to the relevance to the bank and the impact on its operations and to the impact on all the stakeholders and on the living environment. This weighting takes place annually. The perspective analysis and the sub-themes were subsequently discussed during a stakeholder dialogue, to which aldermen for sustainability were invited this year.

Prior to the meeting, BNG Bank conducted a survey among the aldermen of all the municipalities that have included sustainability in their portfolio. The survey asked the respondents to indicate which sub-themes they considered to be most relevant to BNG Bank. The results were discussed during the meeting.

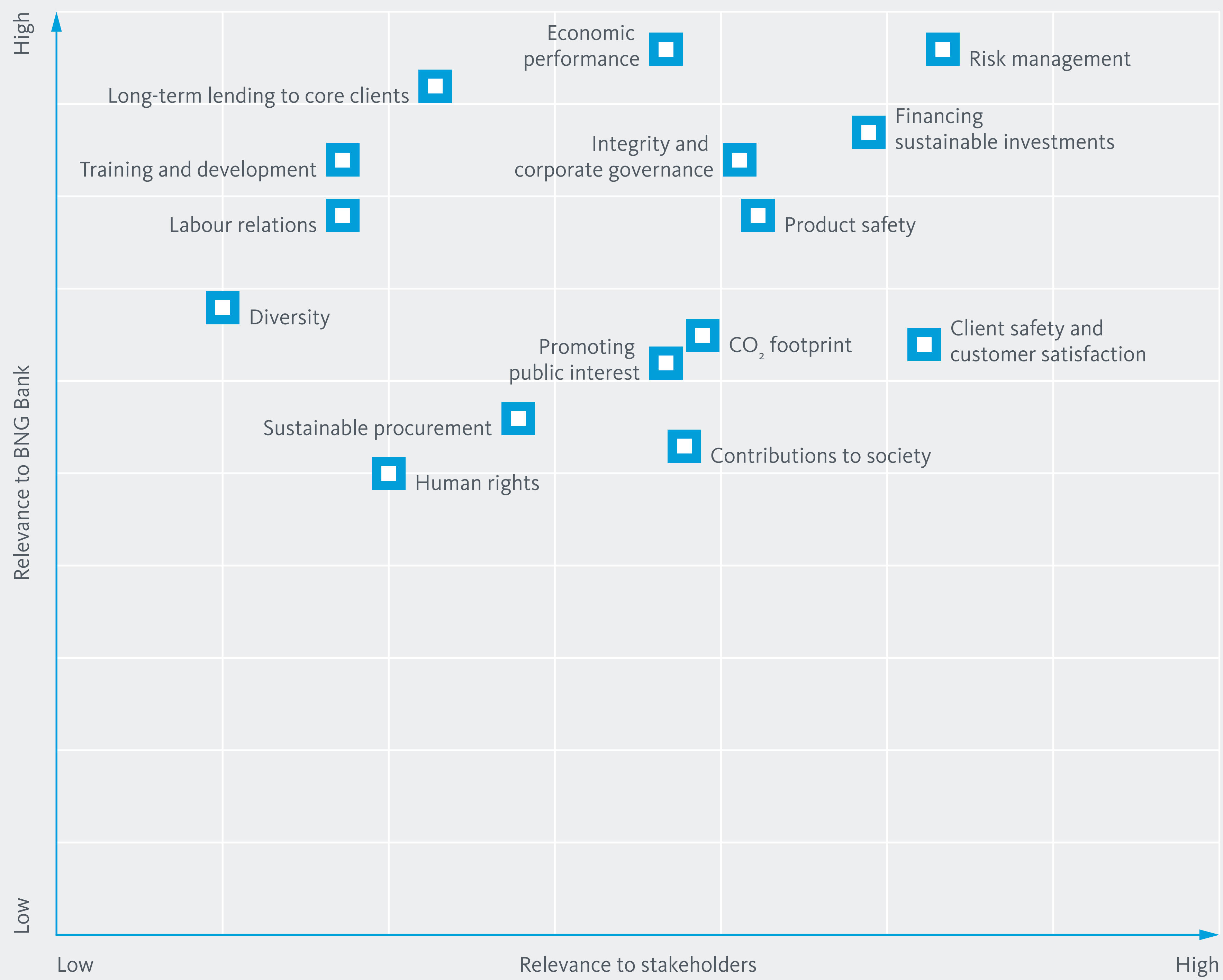
MORE PRO-ACTIVE AND MORE INNOVATIVE

Those attending the meeting validated the perspective analysis with regard to clients. They attach great value to product development and innovation by BNG Bank in terms of financial products. They would like to see BNG Bank pro-actively analyse whether clients have common problems which can be resolved by, if necessary, developing new financing constructions. Good information provision by the bank is considered to be essential. Clients also expect an answer to unasked questions. This exchange of views led to 'innovation' and 'pro-active' being added to the perspective analysis for clients. The participants indicated that political predictability is an important element in relation to the perspective analysis for 'public authorities'.

RESPONSES TO THE THEMES AND SUB-THEMES IN SUSTAINABILITY

Participants recognised that BNG Bank can fulfil an exemplary role in terms of sustainable internal operations, including sustainable procurement. The bank was urged to organise its own operations according to the same standards demanded of its clients. As regards the CO_2 footprint, BNG Bank has no possibilities to finance its total loan portfolio on an entirely carbon-neutral basis. The bank does not wish to exclude any municipalities as clients, but rather wishes to play a positive role in promoting sustainability using the Telos method, which measures economic, social and ecological performance. It was further noted that the results of the survey were more evenly distributed than in the previous year. The focus lies mainly on a safe bank (governance, integrity).

RESPONSES TO THE MATERIALITY MATRIX



The participants believed that BNG Bank can make a contribution to 'social inclusion', in terms of energy transition, for example. The outcome of the priorities set from the bank's perspective and from that of the participants in the survey is presented in the materiality matrix above. The participants found the matrix to be thorough and logical, although the alignment with strategy and strategic objectives still requires attention. The method was seen as an incentive for municipalities to use the same approach in their own reporting. The participants recommended that BNG Bank produce inspiring and high quality communication on project financing during the year.

Based on the outcome of the discussion on the materiality matrix, it was decided which topics should be reported on and where they should be reported (in the Report of the Executive Board, GRI index, sustainability policy or bngbank.nl).

The reporting on material topics concerns BNG Bank and its subsidiary BNG Gebiedsontwikkeling. In its report, BNG Bank does not incorporate data relating to subcontractors or suppliers because the impact and influence on them is limited. When raising funds through private placements, consideration is, however, given to the sustainability performance of providers and the exclusion criteria are applied. The same also applies to suppliers.
Based on the results, the following topics were classified as highly material topics:

- **A SAFE BANK:** economic performance, client safety, customer satisfaction, product safety, risk management, and integrity and corporate governance;
- **RESPONSIBLE GROWTH:** portfolio of long-term loans to core clients, financing sustainable investments;
- **COMMITTED EMPLOYEES:** working relations, training, education, development and diversity;
- **SOCIAL ENGAGEMENT:** making a contribution to society, promoting public interest;
- **ENVIRONMENTALLY CONSCIOUS OPERATIONS:** CO_2 footprint, sustainable procurement.

Alongside the results set out above with regard to the materiality analysis, the participants held a wide-ranging round table discussion with employees of the bank on sustainability issues currently engaging them and the role they believe BNG Bank can play in relation to these issues. BNG Bank took on board the suggestions by participants for greater pooling of demand for financing of small-scale sustainable projects and for expertise on sustainable projects to be made available; these are now being translated into concrete action.

The participants viewed the meeting as both constructive and inspiring. It was suggested that these types of meeting ought to be organised more often. BNG Bank has started work on several of the areas for improvement that were identified. An examination is underway of how the stakeholder dialogue can be embedded in a more structured manner, with an adequate level of representation.

SOLAR POWER SYSTEM ON ROOF OF FLOWER AUCTION

One of the largest solar power systems in the Netherlands is mounted to the roof of the Plantion flower auction in Ede. Over 18,500 solar panels can supply more than 2 megawatt hours of power, reducing CO_2 emissions by around 1,300 tonnes a year. The sustainable power system supplies almost 40% of the electricity used by Plantion. The power will not only be used for the auction's own building, but will also be sent back to the grid. BNG Bank and regional venture company PPM Oost, through Innovatie- en Energiefonds Gelderland, provided financing to Rooftop Energy, a firm specialised in solar power systems.

PETER BORGHSTIJN, SPECIALIST IN STRUCTURED FINANCE

Economic and social developments

MACRO-ECONOMIC DEVELOPMENTS

In line with previous years, economic growth in Western countries remained moderate in 2016. Investment activity by businesses and households has declined since the financial crisis. This is related to the relatively high debt level and the reduced availability of credit due to a tightening-up of regulations in the financial sector. Economic growth is also restrained by the decelerating growth in the workforce as a result of an ageing population. The moderate economic growth meant that inflation remained below the target levels set by the monetary authorities. The central banks continued to pursue a liberal monetary policy, causing interest rates to remain at historically low levels.

The US economy is in relatively good shape, despite the fact that the growth of economic activity declined by 1.0 percentage point in 2016 to 1.6%. The decline was largely the result of a reduced increase in housing investments. Moreover, companies invested less in inventory. As in 2015, exports hardly increased, due to the relatively expensive dollar and weak external demand. The growth of private consumption continued almost unabated, assisted by the further rise in the number of jobs. Unemployment fell to its lowest level since 2007. While wage growth increased slightly as a result, inflation remained limited to 1% thanks to a decrease in energy prices.

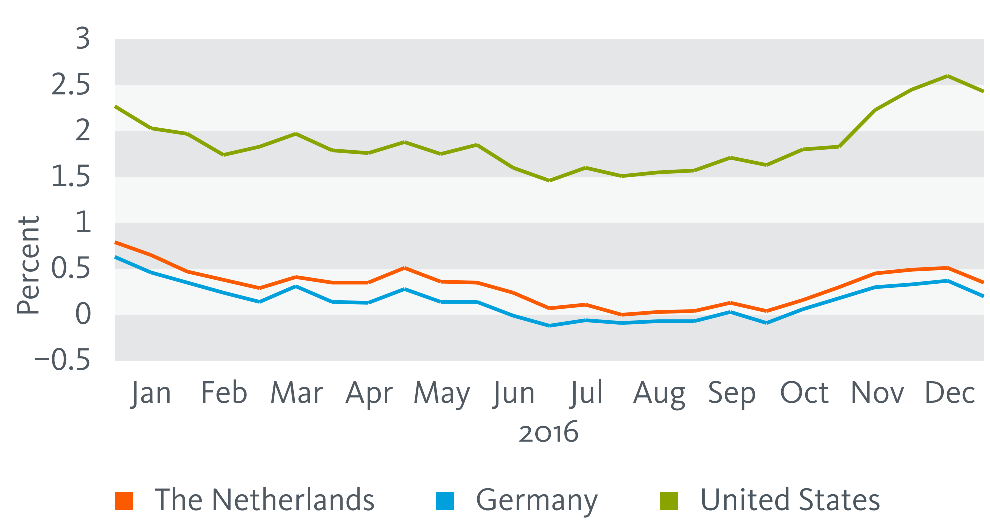
Despite the **very liberal** monetary policy pursued by the **ECB**, investment in **fixed assets** increased **only slightly**.

Gross Domestic Product (GDP) in the euro zone increased by roughly 1.7%, 0.3 percentage points less than in 2015. The development in private consumption remained positive, thanks in part to slightly improving employment growth. Despite the very liberal monetary policy pursued by the ECB, investment in fixed assets increased only slightly. Exports declined in the reporting year. Following the fall in the value of the euro in 2015, the currency rose slightly relative to the main trading partners. The euro rose in particular against the pound sterling, after the UK unexpectedly voted to exit the European Union by a small majority in a referendum held on 23 June (so-called Brexit). This increased uncertainty about European political and economic integration, although the direct consequences for economic activity in the reporting year remained limited. Inflation in the euro zone remained virtually unchanged at a mere 0.2%, partly as a result of subdued wage growth and the further decline in energy prices. Against the backdrop of moderate economic growth, the EMU deficit of the national governments decreased by 0.3 percentage points in 2016 to 1.8% of GDP. Thus, the deficit remained well below the reference value of 3%. As in 2015, gross government debt declined slightly. At the end of 2016, gross government debt was approximately 92% of GDP, significantly higher than the reference value of 60% of GDP as laid down in the EMU Treaty. The Dutch economy grew by 2.0% in the year under review, fractionally stronger than the previous year. Private consumption increased more than in 2015, thanks in part to surprisingly strong employment growth. Unemployment fell to its lowest level in four years. The housing market additionally made an important contribution to economic expansion. Exports of goods and services also increased, despite moderate external demand. Driven by lower rental increases and the further decline in energy prices, inflation fell from 0.6% to 0.3%.

Thanks to the improved economic situation and tax revenues that were higher than expected, the development in government finances in the Netherlands was better than previously projected. The EMU deficit of the Dutch government declined from 2.1% of GDP in 2015 to 0.4% of GDP in 2016. Gross government debt declined by more than 3% to 62.3% of GDP, only slightly above the reference value of 60% of GDP. The Netherlands' gross government debt is lower than in most euro zone countries.

10-YEAR GOVERNMENT INTEREST RATE

Source: Macrobond



Monetary policy remained liberal in most Western countries. Against a backdrop of low inflation, the US central bank left the interest rate unchanged for most of the reporting year. In December, the FED Funds rate was increased by 25 basis points, from 0.50% to 0.75%. As in previous years, the central bank maintained the size of the portfolio of government loans and other loans by reinvesting redemptions on previously purchased securities. On account of the persistently low inflationary expectations, the ECB decided in March 2016 to increase the monthly securities purchases until the end of March 2017 from EUR 60 billion to EUR 80 billion. Furthermore, it was decided also to buy corporate bonds. The deposit rate, which underlies the money market interest rate, was reduced by 0.1 percentage points to -0.4% and remained unchanged thereafter. In December 2016, the ECB decided to extend the securities purchase programme until the end of the upcoming calendar year. It was also decided to reduce the monthly purchases to EUR 60 billion from April.

Long-term interest rates fell in the first few months of the year, owing to the monetary policy outlined above. As a consequence, the long-term interest rate in Germany was slightly negative for some time. The election of Republican candidate Donald Trump as US president on 9 November 2016 prompted a turnaround in international financial market sentiment. The new president's plans to provide a fiscal stimulus to the economy caused share prices to rise around the world. However, the new policy will also increase the government deficit and fuel inflationary expectations. The US long-term interest rate rose considerably in the final months of 2016 as a result. The return on ten-year government loans closed the year at 2.4%, 0.2 percentage points higher than in the previous year. Long-term interest rates fell slightly in most euro zone countries. The German long-term interest rate nevertheless reached a level of 0.2% at the end of the reporting year, 0.4% lower than at the end of 2015. The Dutch long-term interest rate fell by the same amount to 0.4%. The main exception in the euro zone was Italy, where the long-term interest rate rose by 0.2 percentage points to 1.8%, partly due to concerns about the financial situation of Italian banks. On the foreign exchange markets, the euro initially rose against the US dollar due to a more liberal US monetary policy. The likelihood of an interest rate rise increased again in the autumn, partly on account of Trump's election victory, enabling the US dollar to recover. The euro eventually closed the year more than two dollar cents lower, at approximately USD 1.05.

CLIENT DEVELOPMENTS

PUBLIC SECTOR

Municipalities face multiple challenges. On the one hand, there is considerable confidence in municipalities' performance in executing their duties. They are close to the citizens and can provide them with tailored services effectively and efficiently. Accordingly, central government has devolved many tasks to them. This has evidently enhanced the importance of municipalities. On the other hand, the municipalities have also seen their dependency on central government increase further, since the overwhelming majority of their income comes from the special-purpose grants and the general payment from the Municipal Fund. At the same time, municipalities are subject to targets imposed by the central government. The municipality's role as an independent, democratic public authority is under pressure and threatens increasingly to transform into that of an implementing body.

SOCIAL SERVICES DOMAIN

In the social services domain, municipalities were faced with an administrative challenge due to a range of care tasks being transferred to them. Where the continuity of care initially took precedence on the introduction of decentralised tasks in 2015, during the reporting year attention also came to be focused on the administrative settlement. The administrative problems, which arose due to the transfer of care tasks to municipalities, placed a substantially increased administrative burden on care providers in 2016 (Social support Act and Youth Care). By early summer, it became clear that a quarter of municipalities would miss the deadline of 15 July 2016 for filing their financial statements. Municipalities were granted an extension twice. Half of the municipalities were eventually issued with an unqualified auditor's opinion, while 43% were granted a qualified opinion. An adverse opinion was issued to 7% of municipalities. BNG Bank has decided not to attach any related consequences in the credit relationship with municipalities. Last year, it emerged that municipal spending on Social Support Act care tasks in 2015 was EUR 362 million less than budgeted

The administrative **problems**, which arose due to the **transfer** of care tasks to municipalities, placed a **substantially increased** administrative **burden** on **care providers** in 2016.

(EUR 12.8 billion). These savings were offset by a EUR 514 million overspend on the Participation Act, for which the budget was EUR 4.8 billion.

LAND DEVELOPMENT

Municipalities are benefiting from the gradual recovery of the housing market. For the first time since 2008, municipalities recorded a positive balance on their land development activities. The regional differences are considerable, however. Less land is purchased, and investment in preparing land for construction of buildings and roads and laying out landscaping has gone down. At the same time, land yields improved.

MAJOR REVISION OF MUNICIPAL FUND

The current allocation model of the Municipal Fund dates back almost 20 years and no longer fully corresponds to today's social reality. There is a general demand for simplification, such as a reduction in the number of allocation criteria. However, this could be accompanied by relatively large redistribution effects between municipalities. It is also worth noting that the current number of 60 allocation criteria will increase by a further 30 once the decentralisation budgets for Social Support Act and Youth Care services are transferred to the general payment from the Municipal Fund. Another demand is for the development in government social and healthcare expenditure also to be taken into account when determining the size of the Municipal Fund. This has become a pressing concern in view of the healthcare tasks now carried out by municipalities and the intrinsic dynamism of this expenditure. A substantial expansion of municipal taxation powers, as proposed by the Rinnooy Kan Commission, no longer enjoys much support among municipalities, wary as they are of the real possibility that the introduction of such powers will encounter considerable opposition from society.

GROWTH IN REVENUE FROM THE MUNICIPAL FUND

Against the backdrop of economic recovery and the approaching parliamentary elections in the Netherlands in 2017, the central government presented an advantageous September Circular. The prospect of additional municipal revenues from the Municipal Fund was raised for the first time in several years.

BNG Bank **does not expect** that the additional revenues will lead to greater **investments** and stronger **demand for new loans** in 2017.

The additional revenues from the Municipal Fund are nonetheless counterbalanced by heavy spending cuts, many of which have already been implemented. As a result, it is still too early to talk of any improvement in the financial position of municipalities. Accordingly, BNG Bank does not expect that these additional revenues will lead to more investments and stronger demand for new loans.

HOUSING

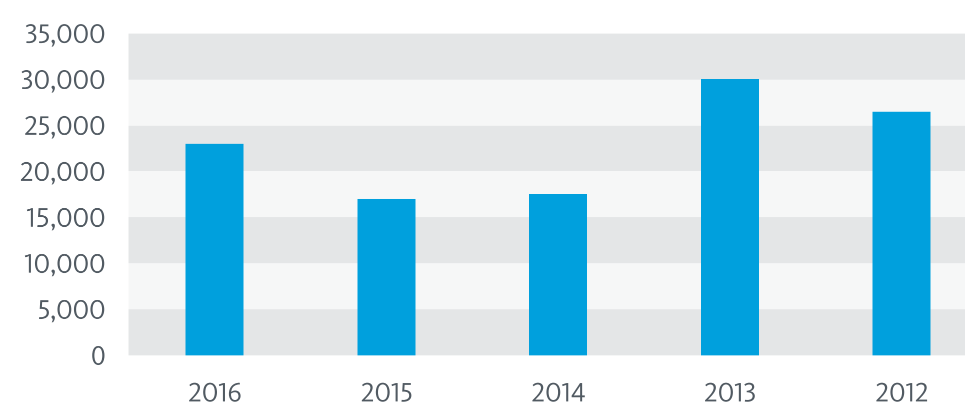
IMPROVEMENT IN FINANCIAL POSITION OF HOUSING ASSOCIATIONS

BNG Bank sees an improvement in the financial position of its clients in the housing association sector. The policy measures implemented following the introduction of the housing association tax are having the desired effect. Various industry reports back up this picture at the sector level. This improvement in the financial position was nonetheless accompanied by a deferment of investments in new developments as well as existing properties. This is also reflected in the reduced average remaining useful life of properties owned by housing associations. At the same time, the improved financial position is also expected to lead to an increased investment level. In June of the reporting year, the Minister for Housing published the indicative spending limit (IBR) for each housing association, primarily in order to give municipalities greater insight into the financial resources of housing associations as background information for the discussions on performance agreements. The figures reveal wide differences in the scope for investment between individual housing associations as well as between regions. The investment tasks also vary considerably from one region to the next.

The low investment level is a contributory factor to the slight decline in the debt position of housing associations. BNG Bank has likewise experienced a slight decrease in its loan portfolio for housing associations. Pressure on the lower end of the housing

VOLUME OF NEW BUILD BY HOUSING ASSOCIATIONS

2016 forecast. Source: ABF Research.



market continues to be high, however. The debate on the availability of sufficient social rented homes remained very topical in the year under review. BNG Bank consulted with several stakeholders in this regard to help them extend the range of both temporary and structural accommodation. For instance, BNG Bank assisted the Association of Netherlands Municipalities (VNG) in preparing a guideline that municipalities can use to increase their understanding of housing associations' financial resources.

Non-SGEI activities will in due course be financed **without a guarantee** from the Social Housing Guarantee Fund (**WSW**). **Housing associations** remain **reluctant** so far to **invest** in the non-SGEI segment.

CITY DEAL

One concrete result of the consultations is the 'City Centre Construction and Transformation' City Deal in the southern Randstad conurbation, which BNG Bank concluded with seven municipalities, the central government, the Province of Zuid-Holland, Bouwend Nederland (Dutch Construction and Infrastructure Federation), Vastgoedbelang, Vereniging Deltametropool, Neprom, IVBN (the association of institutional property investors in the Netherlands) and the Watertorenberaad. The deal allows the large demand for homes in the southern Randstad conurbation to be addressed. No fewer than 230,000 extra homes are needed in the towns and cities of the southern Randstad conurbation in the period until 2030. Redevelopment of vacant areas and buildings will be essential in meeting this requirement. BNG Bank is prepared to facilitate these plans in the form of know-how and financing.

LIMITING RISKS WITHIN THE GUARANTEE SYSTEM

In May 2016, the Minister for Housing and the Central Government Sector sent a letter to the Lower House of Dutch Parliament on limiting the risks within the guarantee system. The changes that the Minister proposed in the letter were in response to the recommendations of the Parliamentary Committee of Inquiry into Housing Associations. One of the recommendations made by the Committee was to introduce an excess for lenders. The Minister did not adopt this recommendation, partly based on the arguments presented by BNG Bank. The bank believes that introducing an excess could have serious implications for the availability of capital for necessary public investments, particularly in the vulnerable areas of the Dutch housing market.

SEGREGATION OF SGEI (SERVICES OF GENERAL ECONOMIC INTEREST) AND NON-SGEI

The amended Housing Act obliges housing associations to segregate Services of General Economic Interest (SGEI) from non-SGEI activities with effect from no later than 1 January 2018 based on the 2016 financial statements. Housing associations were required to submit their draft plans to implement this segregation by 1 January 2017 to the Housing Associations Authority, the external regulator. The basic premise of the Act is that the non-SGEI activities will in due course be financed without a guarantee from the Social Housing Guarantee Fund (WSW). The Act provides for the transitional situation and defines the financing parameters. This was one of the main topics in BNG bank's discussions with its clients and other stakeholders in 2015 as well as in the year under review. For the time being, housing associations remain reluctant to invest in the non-SGEI segment.

BNG Bank is **concerned** about the **small group** of care providers that is **struggling** to make the **transition** to a **demand-driven service model**.

HEALTHCARE

The healthcare sector is a complex field that combines many different interests and has a substantial regulatory burden. Healthcare continues to command considerable public and political attention. Central government has substantially scaled back its role in this sector and placed the financial risks with the parties in the field to the extent possible. It will only provide a helping hand if and when the continuity of crucial care comes under threat. To this end, central government has carried out major reforms of the system in recent years. These reforms have meanwhile been concluded and it is now up to the individual care providers and other parties in the field to chart their own course, based on their own specific role and responsibilities. The healthcare sector was still in the midst of transition in 2016. A large group of care providers is successfully navigating this transition. They can look to the future with confidence, and will not need to worry about the availability of bank funding for investments, for example. The bank has concerns about the small group of care providers that is struggling to make the transition to a demand-driven service model.

Care providers and other parties in the field face an accumulation of policy measures, with government taking a passive lead in this regard. In view of the current risk profile, this means that the relatively limited group of lenders currently active in the healthcare market is reluctant to provide funds. Moreover, BNG Bank played a relatively large role in facilitating this funding in recent years. This brought the limits of its role as a provider of funding in the sector, from the perspective of a sound risk policy, into sharper focus.

BNG Bank is **consulting** with the relevant **ministries** and **Aedes** with a view to giving a further **impetus** to efforts to **improve the sustainability** of **social housing**.

ENERGY AND HEATING: INCREASINGLY SUSTAINABLE

Under the impetus of the Energy Agreement, the energy supply in the Netherlands is becoming increasingly sustainable; the first coal-fired power stations have been closed and renewable energy production is increasing. The Netherlands nonetheless lags behind most other EU Member States in this respect. A substantial part of the sustainable energy supply in the coming years will come from offshore wind farms. In addition to these large-scale projects, there are also many small-scale, local initiatives. BNG Bank is keen to play a role in large national projects as well as in local projects. At the Climate Summit in Rotterdam, 76 municipalities and 3 provinces signed a manifesto in which they agree to work toward a built environment with zero dependency on natural gas. In cooperation with energy companies and other involved parties, their commitment is intended to give a new impetus to making the living environment more sustainable. Efforts to improve the sustainability of social housing fall far short of the objectives set out in the Energy Agreement. One problem is that housing associations are unable to raise their revenues sufficiently to carry out sustainability work in a cost-effective manner. BNG Bank consulted with the relevant ministries and with Aedes with a view to further stimulating efforts to increase sustainability.

Compared to other countries, the Netherlands has a reliable energy network. In addition to funding maintenance, major investments are mainly intended to enable a bidirectional energy flow on the grid. This makes it possible for energy from small-scale local energy generation projects to be supplied to the grid. There is also heavy investment in district heating networks, with 1 in 20 homes in the Netherlands now being connected to such a network. At the moment, much of the heat for these district heating networks is supplied by (gas-fired) power plants, but these networks also are increasingly switching to more sustainable energy sources, such as biomass, geothermal energy and cogeneration.

LAWS AND REGULATIONS/POLICY DEVELOPMENTS

The regulations known as Basel III (or the Third Basel Accord) have been transposed into the EU Capital Requirements Directive IV (CRD IV). These regulations entered into force in 2014 and will be implemented in phases between now and 2019. CRD IV consists of a Capital Requirements Regulation (CRR) and a Capital Requirements Directive (CRD). The CRR sets out EU rules that apply directly to financial institutions. The CRD sets out rules which must be implemented in national legislation.

CRD IV is more comprehensive than Basel III and has been further developed and elaborated since 2014 as well. Whereas the European Banking Authority (EBA) is responsible for providing a technical explanation of the regulations, the ECB lays down additional requirements by formalising its own expectations, where appropriate. This was the case, for example, for the ICAAP and ILAAP packages that were drawn up in 2016 and which addressed the process in relation to capital policy and the process in relation to liquidity policy, respectively.

As regards the leverage ratio in 2016 BNG Bank continued to work toward a leverage ratio of 3% in the expectation that this will become the standard from 1 January 2018. The leverage ratio proposal launched by the European Commission at the end of the year under review takes this lower limit as its starting point. An exception is made for government-related exposures of public development credit institutions, among other things. The Commission declined to apply an exception for so-called national promotional banks in order to prevent too many institutions invoking this exception/these exceptions: the scope of the definition was considered too broad. As BNG Bank does not satisfy all the criteria for classification as a public development credit institution, the lower limit of 3% continues to be taken as a basis in capital policy. A final decision on this matter will be made during the course of this year by the Council of Ministers and the European Parliament.

The next generation of regulations, known as Basel 3.5., is being prepared in the meantime. The year under review saw the publication of new draft regulations on the capital requirement for credit risk and market risk, among other things.

The ECB applies a strict interpretation of the rules regarding governance in a broad sense. Improved data quality, use of quantitative models and independent review of the same are explicit requirements. The process and structure of decision-making and the explicit matching of risks to the formulated Risk Appetite are also subjected to close scrutiny. This leads to BNG Bank developing increasingly formal working practices, despite its limited scale.

The **CET1 ratio** will increase to **28.1%** at the end of 2018 under the baseline scenario in the **EBA stress test**, and in the worst-case scenario to 17.6%.

The experiences with the above did not change significantly in the second year of ECB's prudential supervision of Europe's largest banks. Supervision remains very intense, there is frequent contact with the supervisory authorities and, in BNG Bank's opinion, the pursuit of harmonised supervision sometimes means that insufficient account is taken of the specific characteristics of BNG Bank's business model as a bank for the Dutch public sector. Due to its intensity and above all its unpredictability, supervision placed great pressure on the bank in 2016 as well.

BNG Bank was among the group of 51 banks that took part in the EBA stress test. As in 2014, this proved to be a very intensive process. The stress test resulted in a satisfactory outcome for BNG Bank. In the baseline scenario, the CET1 ratio increases to 28.1% at the end of 2018. Calculation of the effects of the worst-case ('adverse') scenario results in a CET1 ratio of 17.6% for the bank at that date.

RECOVERY AND RESOLUTION

The Single Resolution Mechanism (SRM) came into effect as of 1 January 2016. As a result, the resolution of banks has now been harmonised at European level. Since then, the Single Resolution Board (SRB) has been able to place banks that find themselves in difficulties in resolution. The SRM is based on the EU's Bank Recovery and Resolution Directive (BRRD).

One of the main objectives of the BRRD is to prevent 'the taxpayer' from having to pay the bill if banks face insurmountable financial difficulties as part of the resolution. For this purpose, a Single Resolution Fund (SRF), financed by the banks, will be built up at European level over a minimum period of eight years, starting in 2016. This process was initiated at national level in 2015. From 2016, this levy will be paid to the SRF.

The EBA drew up a large number of technical explanations for the BRRD in 2015 and 2016. An important explanation in this connection concerns the guidelines for the so-called Minimum Requirement for own funds and Eligible Liabilities (MREL). The way in which this is elaborated can affect the manner in which a bank implements its funding structure. The explanation remains under discussion by the EBA and the European Commission. BNG Bank is closely monitoring developments in this regard.

Should recovery no longer be possible, the resolution of a failing bank must be dealt with in a proper manner so as to avoid any systemic shocks as much as possible. Until 1 January 2016, responsibility for these resolution plans lay with the Dutch Central Bank (DNB); and until that point, attention was focused on the large banks of national systemic importance. With effect from 1 January 2016, responsibility for resolution plans for significant banks was transferred to SRB. As BNG Bank was furthermore classified as an O-SII (Other Systemically Important Institution) at the end of 2015, the development of a resolution plan for BNG Bank was also commenced in 2016. All information supplied by the bank is analysed further by SRB in order to produce an initial version of a resolution plan, a so-called transitional resolution plan. An important element in this process is the choice of a resolution strategy for BNG Bank. It is expected that BNG Bank will receive this plan in 2017.

Unique district heating system

A concrete solution offered by sustainable power company Duurzaam Energiebedrijf Roosendaal (DER) and the Municipality of Roosendaal towards an energy-neutral region is the Smart Climate Grid, a unique low-temperature district heating system.

The sustainable heating system uses residual heat from the Suez waste incineration plant and supplies heating to homes and other buildings.

The use of residual heat considerably reduces CO_2 emissions and generates substantial energy savings for users. DER is expanding the existing district heating system with financing from BNG Bank. The sustainable heating system will also supply heating to a former office building that is currently being converted into an apartment complex. DER was established to supply sustainable energy to the local community. A reliable, affordable and sustainable district heating system for the whole population of Roosendaal. That is what we want to deliver.

A **reliable**, **affordable** and **sustainable** district heating system for the whole population of Roosendaal. **That is what we want to deliver**.

DICK MAASKANT, DIRECTOR OF DER B.V.

Our strategy

BNG Bank is the bank of and for local authorities and for public sector institutions. Based on its core values – reliable, sustainable and professional – the bank is a committed partner that makes a sustainable contribution to minimising the costs of social provisions for the public.

Being a committed partner is part of the bank's identity. As a sectoral bank, founded by Dutch public authorities, it provides its clients with solutions for financing issues. It is this background that determines the bank's mission and financial services. Substantial market shares and client partnership require knowledge of the sector and an individual approach.

The bank's mission constitutes the core of BNG Bank's sustainable business practices. By achieving its strategic objectives – substantial market shares in the Dutch public sector and the semi-public domain while generating a reasonable return for shareholders – the bank safeguards the continuity of its efforts to generate value for society.

Achieving the strategic objectives requires an excellent credit rating, adequate risk management, a competitive funding position and effective and efficient operations. BNG Bank is regarded as one of the world's safest banks. The highest ratings awarded by Moody's and Standard & Poor's serve to endorse the bank's strong financial position, solid risk management and reliable and ethical business practice. BNG Bank pursues a strict capitalisation policy. This policy sets the parameters for the bank's safe operating range. With regard to the leverage ratio, the bank's target from 2018 is a certain margin over and above the minimum requirement it will have to meet with effect from that year. The internal lower limit for the Tier 1 ratio (18%) is already well above the required value. Lastly, BNG Bank limits its services to the sphere of activity defined in its Articles of Association. The bank's excellent creditworthiness and its close ties with the public sector enable it to raise funds worldwide at attractive lending rates. BNG Bank's value for society is reflected in the direct and indirect economic effects of its lending activities, which help to make social projects and provisions feasible by providing financing at extremely low rates, usually with extended maturity periods, thereby lowering the cost of public facilities. The bank thus serves the interests of Dutch citizens: they benefit from lower fees for municipal services, lower rents for social housing and lower charges for healthcare and education – even though the specific impact cannot be precisely quantified on account of the diversity of the financial positions and the autonomy of policy enjoyed by the various institutions.

Market share is deemed to be an indicator of BNG Bank's level of effectiveness. The bank aims to meet more than half of total long-term credit demand from its core client groups, and to do so in a viable manner. The bank, as both an adviser and provider of tailored and reliable financing arrangements, wants to help its clients achieve their objectives for a future-proof society by providing them with information and guidance on creating a sustainable investment profile. A key starting point is helping to realise the ambitions set out in the Energy Agreement. The investments for making public real estate more sustainable and generating renewable energy feature a long payback period. This long-term focus is appropriate for both BNG Bank's clients and BNG Bank itself.

By issuing Socially Responsible Investment Bonds and Social Housing Bonds, the bank is responding to the need among investors for sustainable forms of investment and is giving substance to its policy aimed at encouraging municipalities and housing associations to make sustainable investments. The bank intends to continue issuing such bonds in the years ahead.

A reasonable return for shareholders equally means that BNG Bank must efficiently execute its mission. The benefits derived from competitive lending rates and profit accrue to the public authorities, since they are BNG Bank's sole shareholders.

BNG Bank also reflects its social engagement by offering room and seeking attention for relevant developments among its clients – an element crucial to accomplishing its mission. The bank offers its opinion in relevant consultation forums with policy developers and interest groups and highlights its viewpoints among the respective members of government.

The **benefits** derived from competitive lending rates and profit **accrue** to the **public authorities**; they are BNG Bank's **sole shareholders**.

BNG Bank also reflects its social engagement in other ways, by promoting artistic and cultural activities that are important to municipalities. The bank additionally helps to raise young people's awareness of money matters.

Our employees form the foundations of BNG Bank's effective and efficient business practices. The bank operates in a complex and dynamic environment. The need for committed employees with specialist knowledge has grown considerably in recent years. Our employee development policy places a strong emphasis on increasing relevant knowledge and expertise. Internally, BNG Bank seeks to achieve an open culture.

Sustainable business practices form a key starting point for BNG Bank's own activities. Where possible, the bank implements improvements in this respect in its operations. In response to the report titled 'Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO)', which came out in June of the reporting year, BNG Bank published a Position Paper setting out the bank's function and the role it can play, in line with its strategy, in resolving problems that are identified in relation to energy transition, infrastructure and SMEs. The Position Paper is published on bngbank.nl.

SWOT ANALYSIS

Analysis of the bank's business model in combination with analysis of the developments in its external environment allow the bank's strengths, weaknesses, opportunities and threats to be identified: see the SWOT analysis below.

STRENGTHS

- Shareholdership of public authorities
- Status as promotional lender
- High external ratings
- Good access to capital markets
- Does not strive for profit maximisation
- Long-term relationship with and in-depth knowledge of clients

WEAKNESSES

- Limited possibilities for diversifying client base
- Increasing complexity makes small organisation vulnerable
- Funding almost entirely via capital market
- Low margins

BNG BANK

OPPORTUNITIES

- Positioning in terms of sustainability (energy transition)
- Government scaling down role as direct financer of public investments
- European initiatives present possibilities for additional revenue in the Netherlands
- Partnership with stakeholders to develop new markets and products

THREATS

- Increased regulatory and supervisory burden puts pressure on organisation and returns
- Increasing competition
- Persistently low interest rates put pressure on profitability
- Government/public authorities scaling down role as guarantor
- Political debate on business model and operating field

EXPECTATIONS

For the long term, the bank is taking account of a shift from direct lending to public authorities to financing projects in which public authorities are involved, such as public-private partnerships, in the area of infrastructure and sustainable energy, for instance. Furthermore, the bank anticipates that a portion of housing association demand for credit will fall beyond the scope of government backstops, as is the case in the healthcare sector.

Dilemma: facilitate or prevent?

Thanks to their solid budgetary and financial framework, lending to or guaranteed by local authorities is free of risk. Consequently, loans and advances can be provided at low lending rates. Municipalities and provinces sometimes issue guarantees for the purpose of financing projects to underline their importance for society, but are unable or unwilling to execute these projects themselves. However, by issuing guarantees, the municipality or province concerned is exposed to credit risk, which sometimes is difficult for the guarantor to assess for the entire period to maturity.

This poses a dilemma for the bank. On the one hand, the bank should be able to assume that the government has weighed societal desirability against the financial risks during the democratic decision-making process on the guarantee. The provision of financing by the bank at low lending rates for risk-free credit augments the feasibility of such projects. On the other hand, the bank has the expertise to perhaps more accurately assess the probability and the extent of the risks. When the bank draws the government's attention to the potential risks and the client insists on issuing a guarantee regardless, should the bank respect the democratic decision-making process in this case or protect the guarantor from potential risks and not issue the loan in consideration of its duty of care?

BNG Bank actively undertakes to improve the knowledge level of the local authorities to help them identify the risks associated with granting guarantees and to assess the probability and impact of a possible claim. The decision to act as a guarantor, however, ultimately lies explicitly with the relevant public authority.

Our social contribution

THEME: A SAFE BANK

	SUBSTANTIAL MARKET SHARE IN SOLVENCY-FREE LENDING TO CORE CLIENTS
Result 2015	77%
Target 2016	> 50%
Result 2016	76%
Target 2017 and beyond	> 55%

	REASONABLE RETURN ON EQUITY
Result 2015	7.6%
Target 2016	≥ 6.5%
Result 2016	11.5%
Target 2017 and beyond	≥ 5%

Continued on next page

Continuation of previous page

THEME: A SAFE BANK

CONTENT OF ANNUAL REPORT

Result 2015	GRI 4, in accordance with comprehensive approach
Target 2016	GRI 4, in accordance with comprehensive approach
Result 2016	GRI 4, in accordance with comprehensive approach; report following International Integrated Reporting Council layout
Target 2017 and beyond	GRI 4 in accordance with comprehensive approach (reasonable assurance)
Target 2017	Stakeholder survey as part of materiality assessment

CUSTOMER SATISFACTION

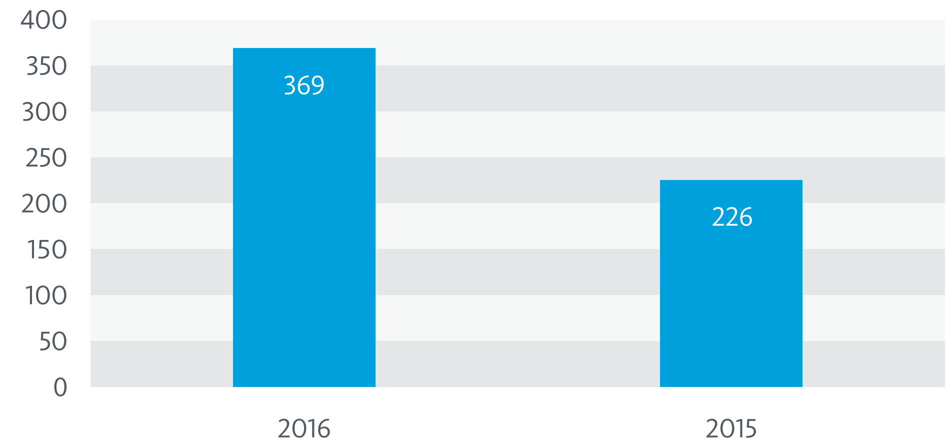
Result 2015	Adjustments to website and in organisation following results of 2014 customer satisfaction survey
Target 2016	Map out client needs regarding e-services, resulting in a new Internet portal in 2017
Achieved 2016	Project proposal approved, main outlines defined, focus group (with client representation) set up
Target 2017 and beyond	Roll-out of initial functionalities

CUSTOMER SATISFACTION

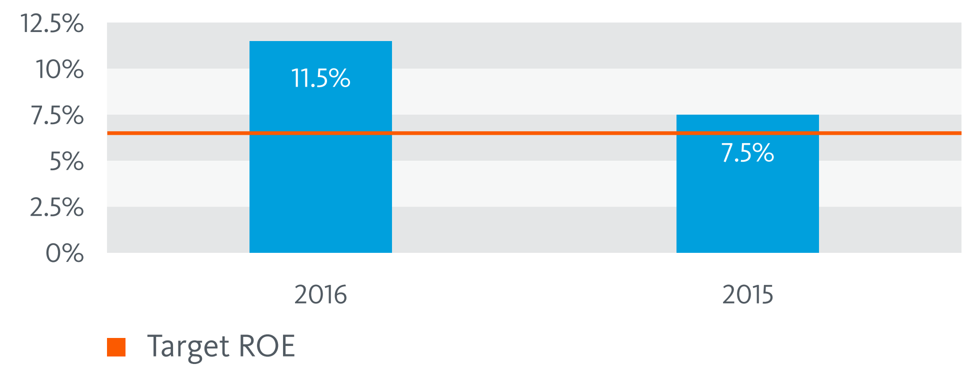
Target 2016	Preparation of 2017 customer satisfaction survey
Achieved 2016	Not achieved, start in 2017
Target 2017	Customer satisfaction survey result ≥ 7,5

PROFIT DEVELOPMENT

Amounts in millions of euros

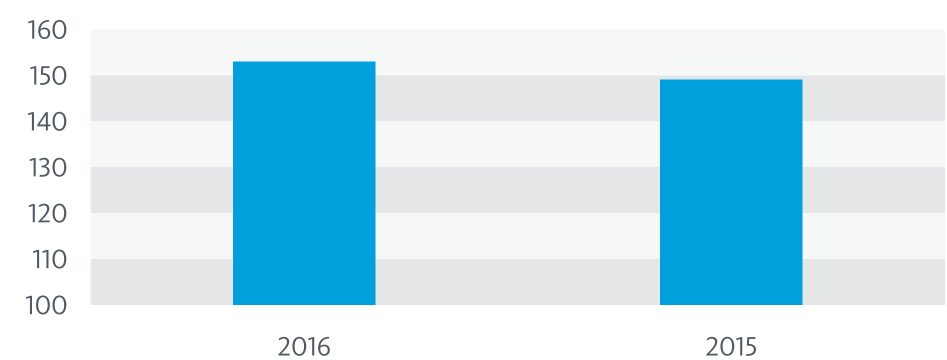


RETURN ON EQUITY

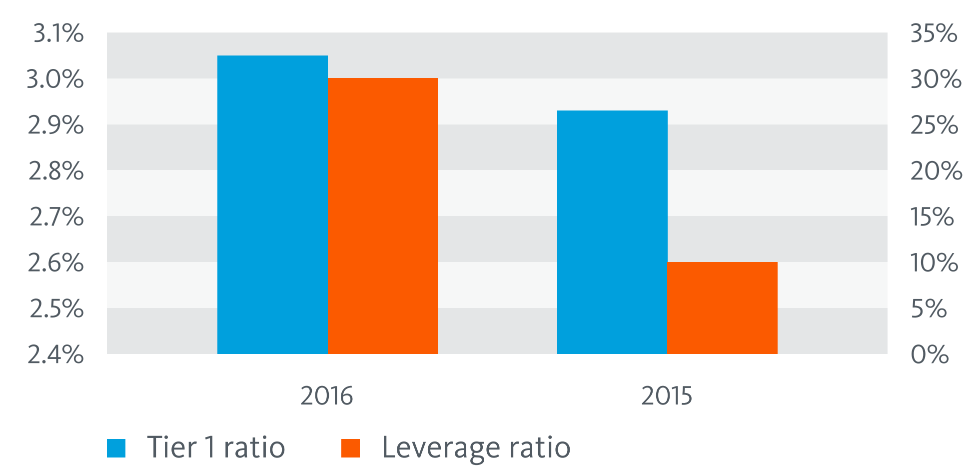


BALANCE SHEET TOTAL

Amounts in billions of euros



DEVELOPMENT OF LEVERAGE RATIO (LEFT SCALE) AND TIER 1 RATIO (RIGHT SCALE)



A SAFE BANK

BNG Bank seeks to be a safe bank. A good price-quality ratio and a reasonable return for shareholders are essential conditions for achieving this aim and allowing the bank to perform its role effectively. Clients are entitled to safe, transparent and straightforward products whose operation and performance are clearly explained. They should be able to trust that the bank will handle the client data entrusted to it with due care and that the systems are properly secured. Client safety and product safety and satisfaction are therefore the starting point for the bank's products and services. To BNG Bank, risk management is a business interest crucial to generating added value for Dutch society and serves to safeguard the high credit ratings underpinning its business model. Equally important is the perception of the bank's integrity and its compliance with legislation and regulations and corporate governance standards among investors, rating agencies, financial counterparties and regulatory authorities.

RESULT AND RETURN

BNG Bank posted a net profit of EUR 369 million for the 2016 reporting year, an increase of EUR 143 million compared to 2015. This increase is attributable to various non-recurring results, sales results and positive unrealised market value changes. Partly due to this, the return on equity[17] of 11.3% is significantly higher than the internal target of 6.5%. In connection with the dividend distribution in the reporting year to providers of hybrid capital, an amount of EUR 365 million (2015: EUR 226 million) is available to shareholders. The bank proposes distributing 25% of this amount in line with the previous financial year. This represents a dividend of EUR 91 million (2015: EUR 57 million). The remainder of the net profit will be added to the reserves. The dividend amounts to EUR 1.64 (2015: EUR 1.02) per share with a nominal value of EUR 2.50.

In line with projections, relative to 2015 the 2016 interest result was down by EUR 45 million to EUR 405 million. This decrease is largely a result of persistently low interest rates and the bank's consequent cautious interest-rate position. The slightly increased margins in the bank's long-term loan portfolio, largely attributable to favourable rates for funding raised, had a positive impact on the interest result. Relative to 2015, the commission result fell by EUR 4 million to EUR 24 million, due to the sale, and hence the loss of fees for the services, of BNG Vermogensbeheer.

[17] The return on equity (ROE) is calculated by dividing the net profit minus the distributed dividend on hybrid capital by the aggregate of the equity minus the hybrid capital, the revaluation reserve and the cash flow hedge reserve at the start of the financial year.

The result on financial transactions was EUR 118 million positive in 2016 (2015: EUR 16 million positive). The unrealised market value changes within the result on financial transactions were highly volatile in 2016, but on balance contributed EUR 55 million to this result. The realised results within the result on financial transactions were likewise positive. An amount of EUR 28 million was earned on the early redemption of long-term funding transactions. Lastly, positive results totalling EUR 34 million were achieved on the sale of interest-bearing securities from the item 'Financial assets available-for-sale'. This largely relates to changes in the bank's liquidity portfolio.

In late April 2016, the AFM approved the sale of BNG Vermogensbeheer BV to ASR Nederland NV. The transfer, which is retroactively effective to 1 January 2016, was subsequently completed in May. The sale of the shares of BNG Vermogensbeheer and the sale of participating interests in an investment fund yielded a total positive result of EUR 34 million.

The activities of BNG Advies were discontinued from 1 June of the reporting year, mainly due to the bank's wish to avoid the potential conflict of interest (duty of care) between providing advice and providing loans and advances.

At EUR 66 million, the consolidated operating expenses remained on par with those of 2015. The increased operating expenses at BNG Bank and BNG GO were offset by the removal of the operating expenses of BNG Vermogens-beheer. The bank's expenses for regulation, information technology and personnel in particular went up. Significant efforts remain needed to enable the bank to continue to comply with rapidly evolving laws and regulations and the resulting extensive reporting requirements.

The bank's contribution to the European resolution fund in 2016 was set at EUR 16 million. The increase of EUR 7 million relative to the contribution in 2015 was caused by the increase in the balance sheet total in 2014 compared with the balance sheet total at year-end 2013. The contribution remained relatively limited in 2016 as well, because the bulk of the outstanding loans of BNG Bank qualify as so-called promotional loans. These may

Expenses for regulation, information technology and personnel **are rising** to enable continuing compliance with rapidly evolving **laws and regulations** and the resulting extensive **reporting requirements**.

be disregarded when determining the annual contribution. The bank's contribution to the statutory bank levy in 2016, which is determined on the basis of the liabilities appearing on the balance sheet at year-end 2015, amounted to more than EUR 35 million (2015: more than EUR 37 million).

In the fourth quarter of 2016, BNG Bank accepted the improved proposal to settle the claims against HETA (formerly Hypo Alpe Adria Bank) with a guarantee from the federal state of Carinthia for a price equal to 90% of the original principal, which in BNG Bank's case amounted to EUR 125 million. This yield is considerably higher than the market price of 58% for which the bank applied an impairment in March 2015. After deduction of legal costs, a positive result of more than EUR 39 million remained, which the bank recognised as a reversal of impairment in the income statement.

In the fourth quarter, BNG Bank also accepted an offer for a disputed claim of almost EUR 20 million against a loan indirectly guaranteed by the Spanish government. The bank had made an individual provision for this claim as well. After deduction of legal costs, a release of the provision of more than EUR 6 million remained.

In the reporting year, BNG Bank's result included impairments in the amount of EUR 8 million, relating to write-downs on participating interests of BNG Gebiedsontwikkeling. Although there are signs of a cautious pick-up in sales of land in most participating interests, several participating interests were faced with new setbacks.

Relative to year-end 2015, BNG Bank's balance sheet total increased by EUR 4.5 billion to EUR 154.0 billion. The loans and advances item fell by EUR 1.8 billion in the reporting year to EUR 87.6 billion, primarily on account of the low investment level of housing associations, as a result of which the amount in respect of repayments by this group of clients was greater than the amount of newly arranged long-term loans. The demand for credit remains relatively low, in spite of the very attractive interest rates for investments. At roughly 76%, the bank's share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions was especially high in 2016 as well. The target of 50% market share in 2016 was therefore amply achieved. The target that at least 90% of long-term loans in the balance sheet should qualify as promotional loans has also been met. The figure at the end of 2016 was almost 94%. In the reporting year, BNG Bank's equity grew by EUR 0.3 billion to almost EUR 4.5 billion. This increase is attributable to the 2016 net profit and the raising of hybrid capital in 2016 in the amount of EUR 309 million.

However, there was also a sharp decrease in the cash-flow hedge reserve, mainly as a consequence of underlying interest rate and currency movements of the US dollar and the euro.

BNG Bank's **risk**-weighted **solvency ratio** increased further in 2016.

BNG Bank's risk-weighted solvency ratio increased further during the reporting period. The Common Equity Tier 1 ratio and the bank's Tier 1 ratio rose to 26.2% and 32.2%, respectively. This rise is mainly the result of the addition of the retained profit for 2015 to the general reserve and the fact that the (positive) revaluation reserve in 2016 makes up 60% of the qualifying capital, while this was still 40% in 2015. The bank's leverage ratio increased relative to year-end 2015 to 3.0%, the proposed minimum standard for this ratio. If the revaluation reserve and the profit for the reporting period, minus the dividend available for distribution, are included in full, the leverage ratio is 3.3%. The bank had set itself the goal of achieving a leverage ratio at year-end 2016, in line with this calculation method, of at least 3.0%.

CLIENT SAFETY AND CUSTOMER SATISFACTION

The results of the 2014 customer satisfaction survey led to adjustments in the organisation and services during the previous period. An example is the insourcing of the Customer Service department from 1 January 2016, in order for complaints and requests for information to be handled with greater efficiency. The suggestions with regard to modernising certain processes and payment service applications were translated into the roll-out of a new portal for payment services in 2016. An important element in this regard is the phasing out of the SmartCard and its replacement by a Digipass. This enables the bank's clients to submit their orders from any location. The security of payment services was an important consideration when opting for a Digipass. The project proposal for a new, broader internet portal was approved in 2016. Payment services form part of this. A focus group, with client representation, was formed for the project. The initial functionalities of this portal are expected to be rolled out for clients during the course of 2017.

COMPLIANCE AND INTEGRITY

A more extensive **online client portal**, also enabling **payment services**, will follow in 2017.

Ethical business practices are an important foundation of BNG Bank. Ethical standards of behaviour on the part of the bank and its Executive Board members and employees are a key element in this regard. BNG Bank applies internal policy rules and procedures to safeguard its ethical business practices and ensure compliance with relevant laws and regulations. These include procedures for accepting new clients, monitoring existing clients and avoiding involvement in money laundering. In addition, the bank's internal rules and procedures provide for the monitoring of employees' private investment transactions, avoiding and where necessary transparently managing conflicting interests and shielding confidential information. Consideration is also given to maintaining and raising awareness of financial regulations, compliance procedures and anti-fraud and corruption measures, for example. The bank monitors compliance with integrity-related laws and regulations and makes improvements where necessary. The bank also actively promotes awareness of changing social perceptions of ethical conduct. An introductory meeting which, as always, focused on the issue of integrity and at which the bank's company code was handed out was attended by 14 employees.

The duty of care, acting in the client's interests, has priority in the bank's services. Accordingly, BNG Bank aims to provide straightforward and transparent products that meet the needs of its clients. Products whose risks cannot easily be assessed by clients are not offered. Attention is given to providing clients with clear and concise information and warning them of the risks attached to certain products. No significant compliance and integrity-related incidents occurred in 2016. BNG Bank, BNG GO and BNG Vermogensbeheer were not involved in any legal proceedings related to non-compliance with laws and regulations in the field of financial supervision, corruption, competition or product liability. Nor were any sanctions or penalties imposed on them. BNG Bank did not report any data leaks concerning client data to the Dutch Data Protection Authority.

CORPORATE GOVERNANCE

DUTCH CORPORATE GOVERNANCE CODE

The Dutch Corporate Governance Code (www.commissiecorporategovernance.nl) sets out principles and best-practice provisions for good corporate governance. The bank adheres to the principles stipulated in the Code, while duly observing the statutory two-tier rule ('structuurregime') provisions insofar as they affect a company's corporate governance structure. The regulations, codes, schemes and reporting procedures used at BNG Bank are consistent with the Code. A separate section on corporate governance can be viewed on bngbank.nl.

There is only one area in which the bank does not follow the Dutch Corporate Governance Code. BNG Bank has not implemented the distance voting recommendation. Given the nature of the bank and the origin of its shareholders, the bank does not believe that this is necessary. The bank highly values direct contact with shareholders. In recent years, the shareholders' representatives attending the General Meeting of Shareholders represented – on average – approximately 60% of the bank's share capital. Due to the fact that the shareholders are also clients, frequent contact naturally exists between the bank and its shareholders' representatives. The powers of control at the shareholders' meeting are proportionate to the level of contributed capital. Pursuant to the Articles of Association, the bank may not cooperate with the issue of depositary receipts for shares. The Dutch Corporate Governance Code was reviewed at the end of 2016. The revised code entered into force on 1 January 2017. The impact of this review on the bank's governance will be assessed and incorporated where deemed necessary. This will be reported in the 2017 Annual Report.

DUTCH BANKING CODE

The Dutch Banking Code contains principles that are in line with the Dutch Corporate Governance Code. BNG Bank complies with the Dutch Banking Code. On bngbank.nl, BNG Bank has rendered account of how it has applied the principles of that Code. The rules, charters, profiles, models and organigrams to which it refers are also published on the website. This equally applies to the integral remuneration policy for Executive Board members, senior management and other bank employees. The account on the website focuses on the structure and existence of the measures taken. In this Annual Report, which is also published on the website, the bank reports in various places on the manner in which it complied with the Dutch Banking Code in the past financial year.

REGULATION ON A CONTROLLED REMUNERATION POLICY

The Regulation on a Controlled Remuneration Policy relates to how financial enterprises adopt and apply remuneration policy to employees whose duties have a material influence on the risk profile of the financial enterprise. BNG Bank has implemented the principles in its remuneration policy in a way and to an extent that reflects the bank's size and internal organisation, as well as the nature, range and complexity of its activities. The bank gives an account of its implementation of these principles on bngbank.nl.

IN CONTROL

Due attention is paid to BNG Bank's internal risk management and control systems. These systems are structured in accordance with the regulations arising from the international guidelines issued by the Basel Committee on Banking Supervision (BCBS), which BNG Bank has set out in an internal Risk Appetite Framework. The framework applies to all the risks identified by the bank. As part of the framework, the Risk Appetite Statement describes the risks which the bank desires to accept in order to achieve its objectives.

The various risks attendant on the bank's activities are discussed each year in BNG Bank's Annual Report. In their 'In control' statements, the managing directors and department heads reporting directly to the Executive Board focus on risk management in relation to the bank's risk appetite. They also set out in the Annual Plans how they aim to fulfil their responsibility in meeting the bank's risk appetite. The overall framework is closely linked to the bank's capital management policy, which is periodically reviewed and discussed with the regulator.

INDEPENDENT ASSURANCE

Audits by the Internal Audit Department focus on independently determining the proper structure and functioning of the internal risk management and control systems. The external auditor audits the financial statements and evaluates the quality and effectiveness of the bank's governance, risk management and control processes, insofar as they are relevant to auditing the financial statements. The findings of the IAD and the external auditor are reported in the management letter and the auditor's report, respectively, to the Executive and Supervisory Boards. The internal and external auditors attend the meeting of the Supervisory Board Audit & Risk Committee and the Plenary Supervisory Board meeting at which the financial statements are discussed.

The bank's risk management and control systems related to the bank's financial reporting risks performed effectively in the year under review, and provide a reasonable degree of assurance that the financial reports contain no inaccuracies of material significance. These systems are in themselves, of course, incapable of providing absolute certainty about the achievement of the company's objectives and the prevention of all errors, instances of fraud and violations of laws and regulations.

RISK MANAGEMENT

BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. The external ratings remained unchanged in 2016. The ratings issued by S&P and Moody's (AAA) are in line with those of the State of the Netherlands. Fitch maintained its AA+ rating for BNG Bank. In order to ensure this safe risk profile is maintained in the future, the bank has defined a risk appetite. The related Risk Appetite Statement sets out the risks the bank is prepared to accept in order to execute its mission and strategy. The stakeholder model is used to identify the interests and expectations of the different stakeholders in relation to the risk profile. These interests act as a basis for formulating ambitions with regard to the risk profile, with a balance being sought between potentially conflicting interests between different stakeholders. The ambitions are formulated in terms of profitability, solvency, liquidity and reputation & brand. These ambitions are elaborated, first in qualitative terms and then quantitatively. Lastly, cascading takes place with regard to the risk tolerance limits for different risk types.

In terms of the 2016 Risk Appetite Statement, the bank remained within its Risk Appetite for the components Profitability, Solvency and Liquidity. As for the leverage ratio, the bank is now compliant with the 3.0% level that the European Commission has proposed as the lower limit from 1 January 2018. The internally defined buffer of 0.4% for absorbing sudden shocks in the relevant factors for calculation is expected to be reached over the course of 2017. It is more difficult to measure whether the bank remains within the Risk Appetite in terms of Reputation & Brand, since cascading here is less concrete than it is for the first three components. An additional effort will be made in 2017 to make this component more easily measurable. The 2017 Risk Appetite Statement, which was prepared and approved at the end of 2016, incorporated several changes, mainly to reflect altered strategic emphases, including a clearer focus on sustainability. Attention was also paid to bringing strategy, acceptable risks and related limits further into line. At the end of 2016, an external review was carried out of the Risk Appetite Statement and the surrounding process and framework. The review concluded that the system is adequate. Useful recommendations were also made for making the framework clearer and more complete. The first steps to implement these recommendations were already taken in 2016. Further information on the Risk Appetite Statement can be found in the risk section and the explanatory notes in the financial statements on the risks attached to financial instruments.

RESPONSIBLE GROWTH

	THEME: RESPONSIBLE GROWTH
	COMPOSITION OF LONG-TERM LOAN PORTFOLIO: SHARE OF PROMOTIONAL LOANS
Result 2015	92%
Target 2016	At least 90% promotional loans
Achieved 2016	94%
Target 2017 and beyond	At least 90% promotional loans
	KNOWLEDGE SHARING
Target 2017 and beyond	Sustainable investing roadshow

BNG Bank's mission is to make a sustainable contribution to minimising the costs of social provisions for the Dutch public. BNG Bank's business model allows it to finance public authorities and public sector institutions on favourable terms. In addition, BNG Bank facilitates the policy of the Dutch government. This means that the bank interacts with the Dutch government to provide tailored financing to stimulate and enable the implementation of individual policy measures.

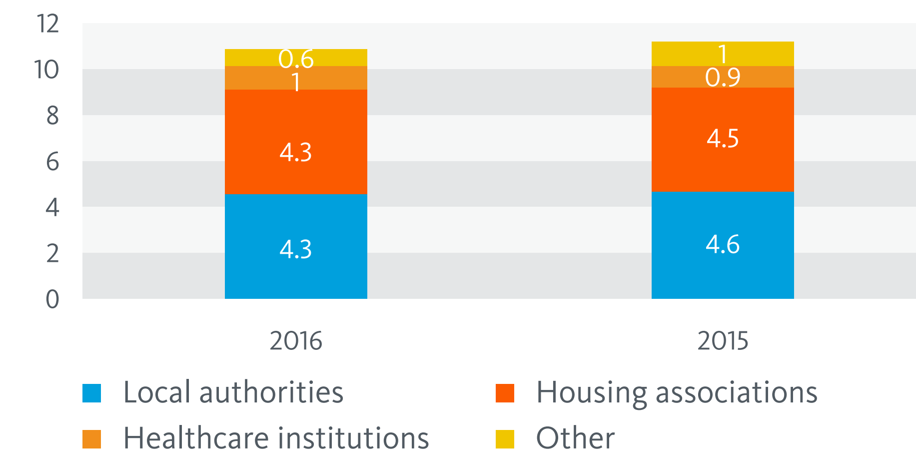
BNG Bank promotes greater sustainability in the Netherlands by assisting the government in implementing its policy and supporting its clients in profitably developing sustainable initiatives.

ADDED VALUE THROUGH FINANCING

BNG Bank generates value for society by implementing its mission and vision, providing lending to public authorities at attractive rates. This directly benefits society in the form of lower costs of public facilities. By creating social value, the bank indirectly serves the interests of Dutch citizens: they benefit from lower fees for municipal services, lower rents for social housing and lower charges for healthcare and education. Turnover in long-term lending in the reporting year was EUR 10.2 billion, EUR 1 billion lower than in 2015. The decline was located in the solvency-free segment; at EUR 1.4 billion, the volume of loans subject to solvency requirements (also including financing for projects in public-private

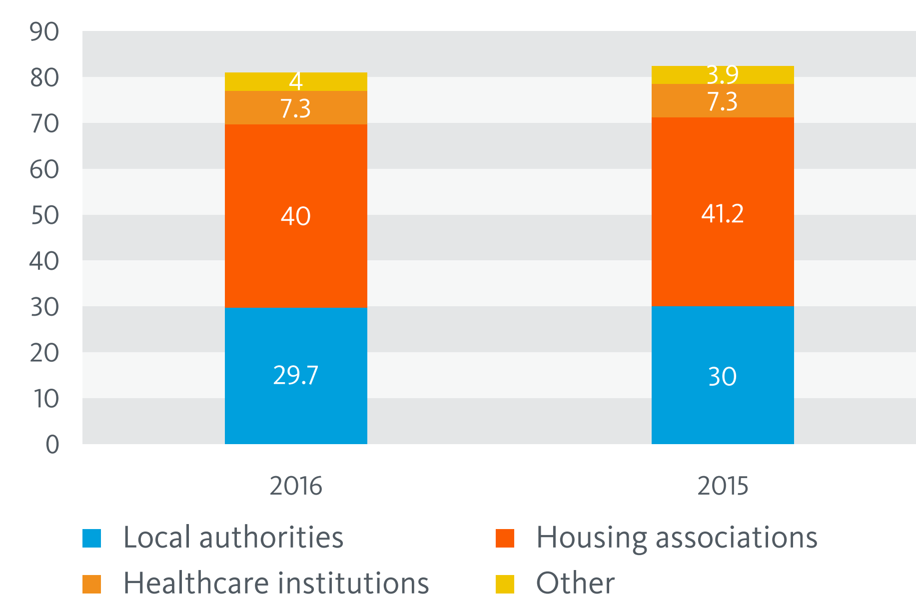
VOLUME OF NEW LONG-TERM LENDING

Amounts in billions of euros



LONG-TERM LOAN PORTFOLIO

Amounts in billions of euros



partnerships) remained at the same level as in 2015. The average volume of short-term lending fell from EUR 4.6 billion to EUR 4.3 billion. The bank's objective of having a market share of at least 50% in the demand for solvency-free lending, as known to the bank, from local authorities, housing associations and healthcare institutions was achieved. The loan portfolio fell slightly, to EUR 81 billion. The bank's concrete societal impact can be illustrated as follows:

At the end of 2016, BNG Bank had approximately **EUR 40 billion** in outstanding loans to housing associations for the purpose of investment in the social rented sector.

LOCAL AUTHORITIES

The reluctance of local authorities to invest translated into reduced turnover among these core clients in the reporting year. The bank's market share remained very high. At the end of 2016, the bank's portfolio of loans to local authorities amounted to EUR 29.6 billion. These loans cover a very broad range of municipal investments, including in educational properties. The administrative body Statistics Netherlands (CBS) reported that EUR 10 billion was invested in educational properties (book value of buildings and grounds) in the Netherlands at the end of 2014. As regards primary and secondary education (2.6 million students), in the vast majority of cases this is the responsibility of municipalities. The bank provided EUR 0.1 billion in long-term loans to other educational institutions in 2016. At the end of 2016, the bank's portfolio of loans to these institutions amounted to EUR 0.9 billion. This relates to investments in educational properties in use by a total of 1.2 million students in 2013 (the most recent year for which figures are available)[18].

HOUSING ASSOCIATIONS

The bank's societal impact for the social rented sector, BNG Bank's largest client group measured by money, is illustrated as follows. At the end of the reporting year, BNG Bank had approximately EUR 40 billion in outstanding loans to housing associations for the purpose of investment in the social rented sector. The interest benefit enjoyed by housing associations within the current financing and guarantee system, in which BNG Bank plays an important role, is 1.5%–2%.[19] This interest benefit represents a premium of EUR 30 – EUR 40 per month for tenants. In 2016, BNG Bank provided approximately EUR 4 billion in new loans to housing associations.

[18] Key figures 2009 – 2013, Ministry of Education, Culture and Science (OCW).

[19] Social Housing Guarantee Fund (WSW) 2015 Annual Report.

HEALTHCARE INSTITUTIONS

At the end of 2016, BNG Bank had EUR 7.3 billion in outstanding long-term loans to healthcare institutions. Of this sum, EUR 5 billion was guaranteed by the Healthcare Sector Guarantee Fund (WfZ). The WfZ issued suretyships in a total amount of EUR 8.1 billion at the end of 2016, thereby reducing the interest expenses for WfZ participants. In 2015, Deloitte carried out an evaluation study into the WfZ. The study found that the interest benefit equates to an annual subsidy of between EUR 90 million and EUR 180 million. This is based on the interest benefit in 2015, which the WfZ places at 1.5% to 2%.

In 2016, the bank provided EUR 1.0 billion in long-term loans to healthcare institutions. Of this sum, EUR 0.4 billion was guaranteed by the WfZ. As a result of the guaranteed granting of credit by BNG Bank, these healthcare institutions enjoyed an interest benefit of between EUR 6 billion and EUR 8 million[20].

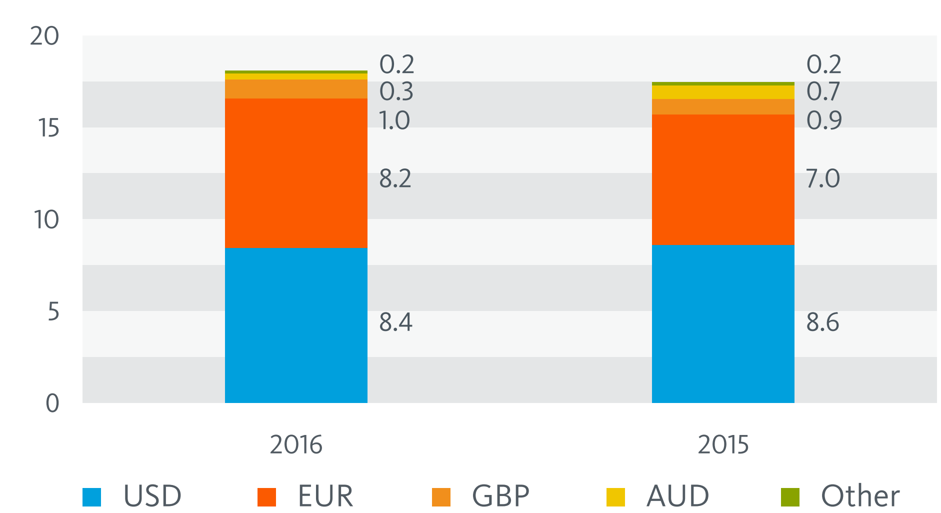
FUNDING

BNG Bank's long-term funding is largely carried out by issuing bond loans under the EUR 100 billion standardised Debt Issuance Programme. The bank issues loans in various currencies, with terms and conditions tailored to the needs of institutional investors in particular. By tailoring its supply of securities as flexibly as possible to investor wishes, combined with its excellent credit-worthiness, BNG Bank is able to attract the required funding on highly competitive terms.

BNG Bank raised EUR 18 billion in long-term loans in the reporting year. As a result of the further decline in the EUR interest rate and the consequent increased demand among investors for long-term bond loans, the average time to maturity rose to 6.4 years. More than 80% of these bonds were issued in public benchmarks in EUR

FUNDING, BREAK DOWN BY CURRENCY

Amounts in billions of euros



[20] WfZ Annual Report, Directors' Report, page 9.

and USD, thereby supplementing the BNG benchmark curves. Funding was also contracted in six other currencies, including an initial bond loan in Chinese Yuan.

The share of benchmark loans in total funding increased in the reporting year. Stricter capital requirements had the effect of increasing the costs of hedging foreign currency risks and reducing arbitrage options. DNB purchased EUR 50 million in bonds weekly, mainly from Dutch sector banks, as part of the 'reverse auction' programme under the ECB's Public Sector Purchase Programme (PSPP). This put pressure on spreads and interest rates. As a result, the time to maturity for EUR-denominated bonds still yielding interest continued to rise throughout the year. Benchmark bonds in EUR were issued with times to maturity of 7 to 20 years. The bank has excellent access to the market in USD bonds via its DIP/144a programme. Bonds in USD with times to maturity from two to ten years were issued during the year under review.

VALUE FOR SOCIETY

	THEME: SOCIAL ENGAGEMENT
	SUPPORT HIGH-QUALITY ART AND CULTURAL PROJECTS
Achieved 2015	Support for projects in various disciplines across the Netherlands; cooperation agreement with the National Youth Orchestra
Target 2016	Continuation of policy
Achieved 2016	Achieved, 60 projects supported; cooperation with National Youth Orchestra continued
Target 2017 and beyond	Continuation of existing policy

	THEME: SOCIAL ENGAGEMENT
	AWARDS IN THE MUSIC, VISUAL ARTS AND DANCE CATEGORIES
Achieved 2015	Awards presented to young talent in the theatrical, literature, youth circus, dance and visual arts categories; visual arts award (in association with Dutch newspaper De Volkskrant); dance award (in association with Korzo Theater)
Target 2016	Maintain awards
Achieved 2016	Awards presented to young talent in the theatrical, literature, youth circus, dance and visual arts categories
Target 2017	Maintain awards
	AWARDS FOR MUNICIPAL CULTURAL ACTIVITIES
Achieved 2015	BNG Bank Heritage Award presented
Target 2016	Maintain award
Achieved 2016	BNG Bank Heritage Award presented; in addition, creation of BNG Bank Long Live Art Award for the municipality with the best cultural and senior citizen participation policy
Target 2017	Maintain awards
	SOCIAL RETURN
Target 2017	Examine possibilities for social return fund

VALUE FOR SOCIETY VIA DISCUSSIONS WITH STAKEHOLDERS

BNG Bank also achieves social impact by actively engaging with clients and interest groups with the aim of working together to find a solution to financing socially relevant activities. During the year under review, the bank hosted more than 30 meetings with municipal executive members and/or local aldermen of municipalities, representatives of sector organisations such as VNG (municipalities), Aedes (social housing), GGZ Nederland (healthcare) and other stakeholders. The bank also presented its ideas on financing socially relevant activities during various meetings, including the VNG Annual Conference, the Innovation Expo 2016 organised by the government and during the Finance Conference for municipalities with more than 100,000 residents. A short overview of these meetings can be found on bngbank.nl. The bank also aired its views via articles in various media, among other things, and the bank provides its stakeholders with an information platform through its digital magazine B&G.

BNG Bank actively contributes ideas for innovative solutions to achieving sustainable growth in the Netherlands. The good relations BNG Bank enjoys with its clients, investors and other traders and the trust they place in the bank enable BNG Bank to assist in realising concrete solutions. In the year under review, the bank actively helped to devise solutions for three challenges identified in society that limit sustainable growth in the Netherlands: the lack of funding for SMEs, the occasional export financing voids and the problems in developing large-scale projects, covering energy transition and sustainable growth among other things.

At the end of June 2016, Oliver Wyman (and De Brauw) published the report titled ‘Nederlandse Financierings-instelling voor Economische Ontwikkeling (NFEO)’. In the report, they argued that, viewed from a European perspective, the Netherlands lacks a promotional bank along the lines of Germany’s Kreditanstalt für Wiederaufbau. They explained why it would be a good idea to create a similar institution in the Netherlands as well. Their advice was to merge BNG Bank, NWB Bank, FMO and several schemes of the Ministry of Economic Affairs to create a finance institution with sufficient strength, whose funding would be 100% guaranteed by the State. The bank believes that it is better to seek a solution for the problems experienced in the Dutch financing landscape among existing institutions. More effective use of existing guarantee and stimulus measures has enabled much to be achieved already, delivering results in very little time. The bank actively aired its views in media (newspaper Het Financieele Dagblad), at conferences (the Dag van de publieke financiering, DPF) and during meetings with clients, shareholders and other stakeholders. The bank is already proving its added value through a series of concrete initiatives, of which

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an energy transition initiative is one example. In addition, the bank discussed solutions for the problems of the fragmented financing landscape in the Netherlands with a range of different parties, including the Ministry of Finance and the Ministry of Economic Affairs, the Confederation of Netherlands Industry and Employers (VNO-NCW) and VNG. In early 2017, it became clear that the government favoured pooling existing programmes and facilities for SMEs. The position of BNG Bank remains unaffected by the government's proposals.

More effective use of existing guarantee and stimulus measures can enable **results** to be achieved **in the short term** with regard to **problem areas** in the financing landscape.

As part of its efforts to help strengthen the position of SMEs on foreign markets, BNG Bank developed a business case in which it fulfils the role of export credit refinancing body under the export credit guarantee scheme (EKG) operated by the Dutch State. In this way, BNG Bank supports the central government's export policy. The export credit guarantee scheme is intended to make financing attractive for other investors. Problems currently falling outside the scope of BNG Bank's mandate require a structural approach, with the involvement of all relevant actors (government, banks, institutional investors).

BNG CULTUURFONDS

BNG Bank promotes art and cultural activities that are important to its clients and thereby to society. This is why BNG Cultuurfonds was set up more than 50 years ago. The bank contributes an amount each year to the BNG Cultuurfonds. The BNG Cultuurfonds primarily awards project grants, aiming at an even distribution across the various art disciplines all over the Netherlands. Out of the several hundred grant applications received, roughly 60 art and cultural projects were selected for support by the BNG Cultuurfonds in 2016. In addition, BNG Cultuurfonds stimulates young talent in a structured way by awarding prizes and supporting theatrical, literature, youth circus, dance and visual arts projects. Talented young classical musicians are stimulated through a cooperation agreement with the National Youth Orchestra, which offers young musicians the opportunity to engage in new productions. At EUR 45,000, the BNG Bank Award for New Theatre Makers is the largest theatre award in the country. The

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BNG Bank Excellent Talent Dance Award is presented in collaboration with Korzo, the dance production house. The BNG Bank Heritage Award encourages municipalities to pursue an effective heritage policy and to draw inspiration from each other in this area. The BNG Bank Long Live Art Award, which was presented for the first time in 2016, is intended for the municipality with the best record of promoting senior citizen and cultural participation. In 2016, the BNG Cultuurfonds hosted six cultural events for the bank's business contacts. These events are highly appreciated.

BNG Bank is satisfied with the role that BNG Cultuurfonds fulfils. The many projects, often with a regional character, that are supported contribute to BNG Bank's role as a committed partner for a sustainable society. The BNG Cultuurfonds intends to continue to support high-quality projects in 2017 also.

Employees also undertake social engagement initiatives themselves on behalf of the bank. Each year, several employees take part in the Banking for Students programme, which teaches children in higher primary school classes how to handle money responsibly. Furthermore, the bank's employees do voluntary work each year at a healthcare institution.

SHARING CLEAN ENERGY LOCALLY – FOR FREE

Softs, the Surface of Everything, focuses its efforts on locally organising free clean energy in the urban area combined with energy sponsorship. Strijp-S, a former industrial estate in Eindhoven, is one such location. Energy sponsorship projects enable public sector organisations to develop sustainable business operations and become energy neutral economically, freeing up funds that can be used to modernise their core tasks.

CHANTAL PUTKER, SPECIALIST IN STRUCTURED FINANCE

Our contribution to a cleaner environment

	THEME: RESPONSIBLE GROWTH
	LENDING FOR SUSTAINABLE PROJECTS
Achieved 2015	Lending for roll-out of solar panels on housing association homes and enhanced sustainability of accommodation
Target 2016	Increase in lending; funding SDE-related projects; funding sustainable initiatives of core clients
Achieved 2016	Achieved, see overview
Target 2017 and beyond	Participation from Energy Transition Financing Facility ; funding of solar panels and wind energy
	SRI BOND ISSUES
Achieved 2015	One SRI Bond, EUR 650 million
Target 2016	At least one issue
Achieved 2016	One Social Housing Bond, EUR 1 billion; one SRI Bond, USD 600 million
Target 2017	At least two SRI Bonds (preferably one for municipalities and one for housing associations)

THEME: ENVIRONMENTALLY CONSCIOUS OPERATIONS

	REDUCE CO_2 EMISSIONS
Achieved 2015	CO_2 emissions 511 tonnes
Target 2016	Determine a responsible CO_2 compensation method
Achieved 2016	CO_2 emissions: 506 tonnes. CO_2 compensation method not yet determined.
Target 2017 and beyond	Reduce CO_2 footprint, if necessary through CO_2 compensation
	REDUCE PAPER CONSUMPTION
Achieved 2015	Consumption 8,916 kg (measured on basis of procurement figures; non-recurrently low due to stockpiling in 2014)
Target 2016	Reduce paper consumption through digital distribution of meeting documents
Achieved 2016	Procurement 10,088 kg. First paperless meetings held
Target 2017 and beyond	Ongoing roll-out of paperless meetings
	INCREASE LEVEL OF SUSTAINABLE PROCUREMENT
Achieved 2015	Replacement of printers and copiers, start of business use of tablet PCs
Target 2016	Launch measures aimed at climate-neutral operations in 2020
Achieved 2016	Solar panels installed on office building; video conferencing facility implemented at end of 2016 to reduce no. of kilometres travelled; approved tightened procurement policy
Target 2017 and beyond	Reduce energy consumption; implement tightened procurement policy
	EMBEDDING SUSTAINABILITY POLICY
Target 2017	Comprehensive embedding of sustainability policy in HR policy, including in car lease scheme

SUSTAINABLE LENDING

By signing the climate statement of the Netherlands Bankers' Association in late 2015, the bank signalled its commitment to making an active contribution to creating a more sustainable society. When applying the sustainability theme to the bank's product portfolio, the following guiding principles are observed: ensure a link to the bank's strategy and business activities, provide a positive incentive for sustainable client investments and create a situation that is beneficial to client and bank alike. Ensuring more sustainable public real estate and housing association homes and the generation of renewable energy are key policy objectives. The bank has identified several possible roles it can play in this regard: as an adviser on the (financial) shaping of investment projects, as a provider of tailored financing arrangements for sustainable investments and as a guide in relation to the sustainability requirements with which projects must comply. In practice, there are three financing options, with an increasing level of proactivity: balance-sheet financing, where the bank follows the client; project financing, which can be initiated by the client as well as the bank; and pro-active financing, whereby the bank develops forms of financing designed to provide clients with a comprehensive package. The bank additionally acts as a link between investors with a preference for sustainable forms of investment and municipalities and housing associations with exceptional sustainability credentials. A selection of sustainable projects and the bank's involvement in them is described in the adjacent section.

In practice, BNG Bank has three financing options: **balance-sheet** financing, **project** financing and **pro-active** financing.

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WESTERMEERWIND, NOORDOOSTPOLDER

Westermeerwind is a wind farm 'for and by the polder' that is jointly financed by BNG Bank. It was established in 1996 in the Noordoostpolder area of the province of Flevoland at one of the windiest locations in the Netherlands. Together with two other wind farms, Westermeerwind wind farm forms part of Windpark Noordoostpolder, the largest wind farm in the Netherlands. It generates approximately 1.4 billion kWh clean, sustainable electricity annually, enough to supply more than 400,000 households for one year. The wind farm reduces CO_2 fossil fuel emissions by 180,000 – 230,000 tonnes each year.

WARMTEBEDRIJF EDE

The Municipality of Ede wants to switch from fossil fuel (gas) to local energy generation with regionally sourced biomass (thinnings and cuttings). A loan provided by BNG Bank helped fund the MPD Green Energy project's further expansion at a second location in Ede. Heating company Warmtebedrijf Ede uses the green heating network to connect the different heating suppliers and customers. The total investment amounts to 17 million euro. The bank opted for a strategy that helps to implement the Energy Agreement. The power plants operate on behalf of the government and contribute toward achieving its environmental objectives. Warmtebedrijf Ede works for the municipality and the Woonstede housing association, both of whom are clients of BNG Bank. One of the remaining Enka buildings, a listed building, is being converted into a climate-neutral complex with green heat supplied by the new power plant.

ROOFTOP ENERGY

Last year, Rooftop Energy concluded a financing agreement with BNG Bank to fund 20 solar energy installations with a combined installed capacity of approximately 3.5 Megawatt peak (MWp). The 20 installations will be placed on the roofs of public real estate and SMEs. The public real estate includes municipal offices, schools and sports facilities, among other properties. Rooftop takes care of all technical, administrative and financing arrangements, freeing customers to use their self-generated green energy. Rooftop and BNG Bank will extend their collaboration further in the coming years. The first installations are already operational: one on the roof of the municipal offices of Alphen aan den Rijn (generating capacity: 35.7 kWp) and one on the 'De Plataan' multifunctional centre in the municipality of Boskoop (generating capacity: 100 kWp), which powers the lighting in the sports hall. Last year also saw the start of work to install 18,500 solar panels with a total generating capacity of 2.3 MWp on the roof of the Plantion flower auction house next to the A30 motorway in Ede. The solar installation is one of the largest in the Netherlands and will reduce CO_2 emissions by approximately 1,300 tonnes per year.

GEOTHERMAL ENERGY: WARMTEBEDRIJF BERGSCHENHOEK

BNG Bank financed the development of a geothermal heat source by Warmtebedrijf Bergschenhoek at the end of 2016. This heating company is seen by its shareholder as a means of developing a long-term sustainable energy source and heating network. Using a geothermal heat source 2,000 metres below the surface and heat pumps with a thermal capacity of 21 Megawatt, heat will be pumped to Eneco Zakelijk, which will then supply it to 13 greenhouse horticulture businesses in the surrounding area. The heating company will enable CO_2 emissions to be reduced by 22,000 tonnes compared to gas generation. This energy transition project is made possible in part by a central government grant under the Promotion of the Sustainable Supply of Energy (SDE) programme. The project is an example of how BNG Bank is contributing to energy transition in the Netherlands.

ENERGY TRANSITION FINANCING FACILITY (ETFF)

In association with the Ministry of Economic Affairs and the Netherlands Investment Agency (NIA), BNG Bank made EUR 100 million available in 2016 for energy transition projects that do not currently qualify for financing due to their inadequate level of risk-bearing capital. Alignment with the European investment plan also enabled the European Investment Bank to jointly provide funding. The ETFF will initially focus on geothermal, energy-saving, energy storage and biomass projects. An addition of 10 per cent or more to the risk-bearing capital already available can be sufficient to raise loans from commercial lenders, thereby enabling a project to go ahead. The facility will be opened once it is clear that the European Commission has no objections to the facility. The European Investment Bank has expressed interest in assisting with the ETFF, through co-financing arrangements, for example, or via a guarantee. The scalability, participation of other banks and leverage effect thanks to additional loan capital should release multi-billion euro investments for energy transition.

SOFTS: SURFACE OF THINGS

The Surface of Things technology (Softs) provides access to free clean energy for social organisations. Softs organises this at a local level. It develops an urban energy network that generates free solar energy and distributes it fairly, enabling society to modernise and become more sustainable as soon as possible.

BOER KIEST ZON

Boer Kiest Zon develops solar energy projects for the agricultural sector. The solar panels are installed on the roofs of farms participating in the initiative. Many roofs of farms contain asbestos that is removed as part of the process to install the solar panels. This not only guarantees sustainable energy, but also provides an immediate public health benefit. Boer Kiest Zon will install approximately 60,000 solar panels, which will generate enough energy to power roughly 5,000 households. Once the solar panels have been installed, Boer Kiest Zon will remain responsible for the operation, monitoring and maintenance of the arrays for a period of 20 years. Boer Kiest Zon BV approached BNG Bank for the necessary financing. This is an example of how BNG Bank is supporting energy transition in the Netherlands.

BNG Bank has issued **sustainable bond loans** valued at **EUR 2.7 billion** since 2014.

The bank continues to provide financing for solar and wind energy projects as well as projects to make public real estate more sustainable. New initiatives are also being developed. Some examples are given in the adjacent section. The amount of outstanding loans under project financing for sustainable projects at the end of 2016 was almost EUR 1 billion. The bank also examines possibilities for supporting the SME market and facilities for small-scale sustainability projects, making public real estate more sustainable and making improvements to private home. Furthermore, a Global Loan in the amount of EUR 250 million in 2016 and EUR 250 million in 2017 was agreed with the EIB, which will be used to fund specific lending by BNG Bank. This is conditional on at least 70% of these loans being covered by one of the five investment objectives defined by the EIB and being capable of contributing to the EIB's climate change objective.

SUSTAINABLE BONDS

In June 2016, the ICMA added Social Bond Guide Lines to the existing Green Bond Principles (GBP). This makes it possible to issue bonds, alongside SRI bonds, whose proceeds will be used for social goals, and to do so according to a broadly accepted standard. At BNG Bank's request, Telos, the institute for sustainable development of Tilburg University, developed a 'best-in-class' framework based on the UN's (2016) sustainable development goals (SDG). Sustainalytics, a global leader in ESG and Corporate Governance research and ratings, found the framework to be 'robust and innovative'. The criteria for the BNG Social Housing Bond, which was issued in July of the reporting year, are based on SDG 11: Sustainable cities and communities. The loan, which was well received in the market, is for EUR 1 billion and has a term of eight years. The net proceeds of the bond were used to finance loans to the 'best-in-class' housing associations mentioned in the framework. BNG Bank will publish an impact assessment each year and the external auditor will monitor the process. In November, the first SRI bond in US dollars was issued, for USD 600 million, to provide financing to 'best-in-class' municipalities. With the issue of both bonds, approximately 9% of the total financing requirement was hedged. BNG Bank has issued sustainable bond loans in a total amount of EUR 2.7 billion since 2014, making it one of the largest parties in this field in the Dutch banking sector.

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IMPROVING THE SUSTAINABILITY OF BUSINESS OPERATIONS

Although the environmental impact of an office organisation of such modest size as BNG Bank is relatively limited, like every other organisation the bank can still make a contribution to a cleaner environment. If sustainability policy is to be credible, it must be supported by environmentally conscious internal operations. With this in mind, BNG Bank aims not to carry out harmful activities, to limit them or to conduct them in an alternative 'greener' way, and to implement compensatory measures where possible. In 2016, the bank's procurement policy was recalibrated to place a sharper focus on sustainability. Solar panels were installed on the roof in 2016. They generate approximately 25 MWh of electricity, with any additional power needed being obtained through green procurement. The office building is connected to the district heating network. For 2017, the objective is to reduce electricity consumption by optimising the settings of the different building systems outside office hours. In addition, a more sustainable alternative is sought for the hot water supply. The first paperless meetings were held as part of the commitment to further reduce paper usage. This will be expanded in 2017. In addition, a certified sustainability score was obtained for the office building in 2017. This helps to define a realistic level of ambition for improving sustainability further, managing efforts in that regard and making the bank's progress toward that goal transparent. BNG Bank's CO_2 emissions are mainly determined by air and car mileage. Video-conferencing was introduced at the end of 2016 as a (partial) alternative for this. The effects will become visible in 2017. A series of compensatory measures will also be implemented.

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A year of change

The Works Council represents the interests of BNG Bank and its employees, including those of its subsidiary BNG Gebiedsontwikkeling.

The year 2016 was an intensive year for the Works Council, which began operating on 1 March 2016. In addition to working on issues relating to BNG Advies closing down and the establishment of the Data and Information Management department (DIM), the Works Council held extensive discussions with the chair of the Executive Board on remuneration policy, sustainable employability and mobility. A portion of the variable remuneration will be earmarked for mobility and sustainable employability. This will be worked out in greater detail in 2017.

The Works Council aims to provide a **solid basis** for the **future** of BNG Bank and its **employees**.

SELMA HUIZER, WORKS COUNCIL CHAIR, BNG BANK

Our employees

	THEME: COMMITTED EMPLOYEES
	KNOWLEDGE TRANSFER TO EMPLOYEES
Achieved 2015	Two meetings on strategy recalibration; a total of nine 'BNG Update sessions' organised on current topics
Target 2016 and beyond	Information on current topics via 'BNG Update sessions'
Achieved 2016	Nine 'Update sessions' organised on state of affairs, HR policy and remuneration policy
Target 2017 and beyond	Information on current topics via 'BNG Update sessions'
	UTILISE AVAILABLE QUANTITY AND QUALITY
Achieved 2015	Employee survey held
Target 2016 and beyond	Policy aimed at permanent education and development, so as to increase flexibility and sustainable employability
Achieved 2016	Partly achieved: organisation of in-company training sessions; survey of managers' and supervisors' management competencies
Target 2017	Development of permanent education policy; creation of mobility/sustainable employability budget

THEME: COMMITTED EMPLOYEES

PROMOTE EMPLOYEE MOBILITY

Achieved 2015	–
Target 2016 and beyond	Develop policy on temporary and structural mobility
Achieved 2016	Intentions formulated, not yet implemented in policy
Target 2017	Formulate policy

COMPETITIVE AND REASONABLE TERMS OF EMPLOYMENT

Achieved 2015	Evaluate rating and remuneration system
Target 2016 and beyond	Broad and efficient job description and rating, aimed at stimulating and facilitating mobility
Achieved 2016	Review of job classification system: no recalibration needed
Target 2017 and beyond	Examine whether introduction of broad job descriptions contributes to promoting mobility
Target 2016 and beyond	Draw up new remuneration policy for current employees; modify ratio between fixed/ variable remuneration and other terms of employment within the long-term objectives of HR policy
Achieved 2016	Policy established and approved
Target 2017 and beyond	Implementation of new remuneration policy effective 1 January 2017

Committed employees represent the bank's most important asset. They work in an environment which is subject to constant change, largely as a consequence of laws and regulations. BNG Bank aims to foster a tolerant corporate culture in which employees feel valued and at ease and appreciated in terms of differences and similarities in their identity, knowledge, competencies and experience. This culture is based on acceptance, respect, equal treatment and fair opportunities. We apply a broad definition of diversity, in respect of gender, age, sexual orientation and cultural, ethnic and religious background among other things. In 2017, internal objectives will be defined with which a balanced workforce must comply. In 2016, no discriminatory incidents were reported.

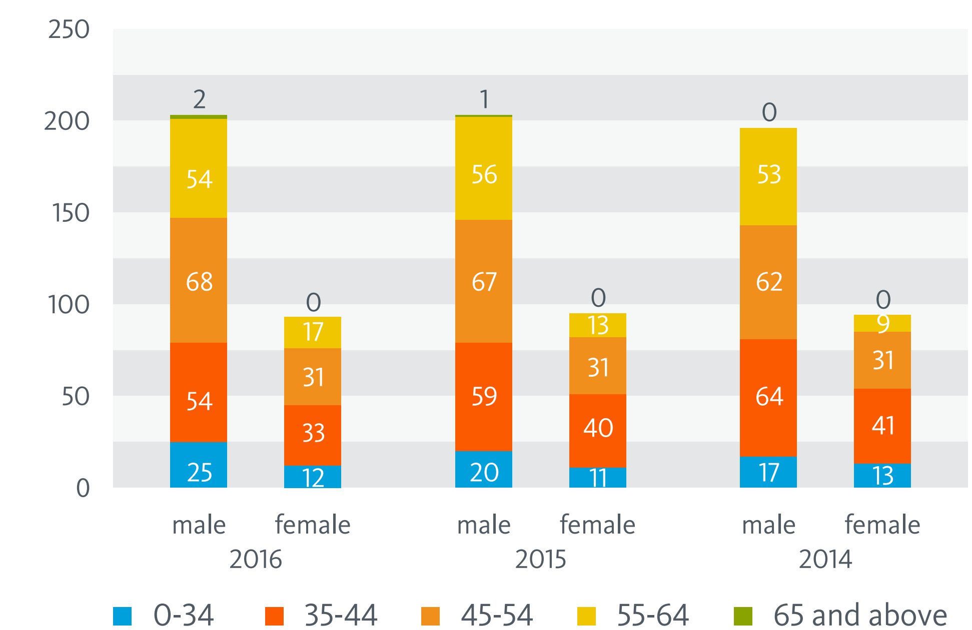
Our **corporate culture** is **based** on acceptance, respect, equal treatment and fair opportunities.

In addition to the bank's corporate culture, health, professional competence and motivation also influence an employee's sustainable employability. BNG Bank's policy in this regard is defined as follows:

- dialogue between employees and their manager on work and development. Principle of collective responsibility;
- encourage autonomy in work;
- encourage participation, involvement in decision-making;
- utilise training opportunities (through permanent education);
- utilise preventive measures designed to promote health.

WORKFORCE COMPOSITION

Number of FTEs



The bank's workforce including its subsidiary remained virtually constant at 296 employees, despite the transfer – including 9 employees – of BNG Vermogensbeheer to a.s.r. At the end of 2016, the number of FTEs (based on a 36-hour working week) was 292, of whom 277 work for BNG Bank and 15 for BNG GO.[21] This reflects the increased regulatory burden. Of our employees, 17 (12 men and 5 women) have a fixed-term contract. In order to meet the substantial request for information from regulators and to enable the execution of data and process quality improvement projects, the number of external employees increased from 25 in 2015 to 43 in 2016. Women account for almost one third of the employees. The percentage of women in management positions is 26%. At more than 47 years, the average age of the workforce is relatively high. In the reporting year, ten men and nine women took parental leave, all of whom returned to their 'former' position. In 2015, 23 employees utilised this option.

PROFESSIONALISM AND EXPERTISE

The bank pays attention to employee development potential and motivation, thus ensuring that BNG Bank can continue to fulfil its role as a specialised bank effectively.

TRAINING COSTS (EUR)	2016	2015	2014
Total amount	650,833	455,813	640,635
Amount per employee	2,199	1,530	2,209

Work relationships are focused on (continual) long-term successful performance, in different, and in any event changing, positions and in different phases of life. This results in the mutual responsibility to take initiatives to stay up to speed, invest in development and achieve development targets. This is not without commitment or obligation.

The type of employee the bank needs is one who is able to continually adapt to changing circumstances. The (interactive and cognitive) ability to learn and the (interactive and cognitive) ability to adapt are important competencies in this regard. That requires permanent attention to development, focused on talents, competencies, insights and skills. The bank plans to develop a policy for permanent education over the course of 2017.

[21] Starting in 2016, the FTE of positions for which a 40-hour working week has been agreed is determined on the basis of a 36-hour working week, resulting in > 1.1 FTE. The number of FTEs consequently increases by more than seven.

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Each year, personal development meetings are held with employees to discuss the developments relevant to the position and examine what is needed to ensure continued adequate performance in that role. Actions arising from these meetings are laid down in a personal development plan.

The reporting year saw a review of the extent to which managers possess the necessary management competencies. The central question during this review was whether the managers have the skills to ensure the success of the BNG Bank strategy. The results are detailed in personal and shared development plans.

During the reporting year, various activities were undertaken with the aim of furthering the professionalism and expertise of the employees. These included two in-company training sessions focusing on how to write effective content. The members of the Sustainability Committee followed a programme on circular business in the reporting year. During the programme, they learned about the concept of the circular economy and exchanged ideas on the need to give more substance to the concept of circular business practices.

Seven out of ten information incidents are attributable to human actions. It is therefore important to focus not just on technology, but also on the human factor in particular. With this in mind, virtually all employees took part in a programme aimed at stimulating and raising awareness of information security.

TERMS OF EMPLOYMENT AND LABOUR RELATIONS

BNG Bank's remuneration strategy is based on offering socially responsible and market-compatible remuneration, to enable the bank to attract and retain employees with the desired competencies. The bank additionally aims to reward employees who actively contribute to enhancing their own mobility and sustainable employability.

In 2016, a remuneration proposal satisfying these policy principles was submitted to the Works Council for approval. The Works Council approved this proposal at the end of 2016. A key element is the abolition of variable remuneration, with compensation being provided partly in fixed remuneration and partly in the form of a training and development budget available to employees.

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The review of the job classification system concluded that no recalibration of the overall job portfolio is needed. A study to be carried out in 2017 will assess whether the introduction of broader job descriptions can contribute to promoting mobility as envisaged.

EMPLOYEE ENGAGEMENT AND SATISFACTION

The bank periodically conducts an employee survey. The last such survey was held in 2015. The next survey is scheduled for 2018.

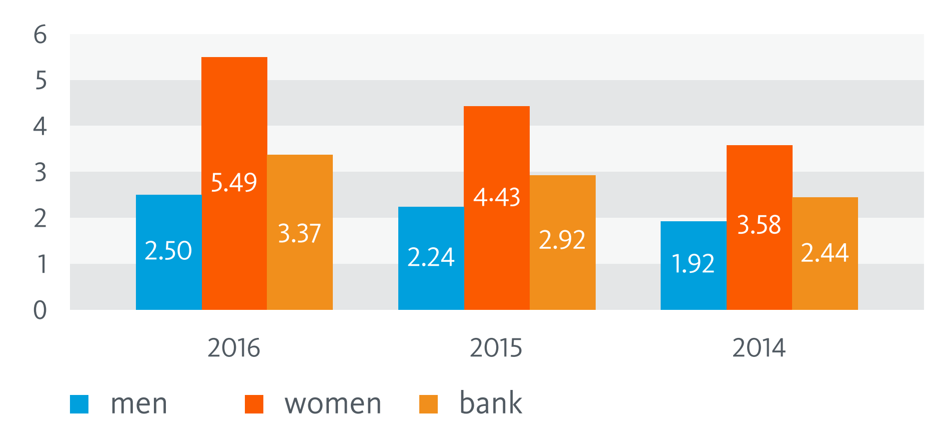
HEALTH

In line with the aims of HR policy, the working conditions policy is geared toward effective absenteeism management and good working conditions. BNG Bank took (preventive) measures intended to prevent absenteeism as well as (curative) measures aimed at controlling it. Each employee has a personal responsibility in terms of implementation of the policy. This personal responsibility is the starting point for the (development of) preventive measures. An example is the periodic health check which all employees can take part in every three years. The next health check is scheduled for 2017. Each employee can furthermore take advantage of an occupational health provision.

The upward trend in absenteeism of the past few years continued. The absenteeism rate in 2016 was 3.4%, above the internal target rate of 3%. Psychological disorders or complaints represent 38% of all cases, making them the main reason for absenteeism. These disorders or complaints are almost always determined by a combination of multiple factors, including personal problems, personality traits, physical health and the level of work-related stress experienced. The Occupational Health & Safety Agency reported that work-related factors play a small part in BNG Bank's absenteeism rate. This rate appears to be largely attributable to a small number of employees on long-

DEVELOPMENT OF SICKNESS ABSENTEEISM

(in %)



term sickness absence. This group is the subject of regular discussion with the Occupational Health & Safety Agency in the social medical team. Working conditions are a recurring theme in discussions between managers and employees, in talks with the prevention officer and in consultations with the Works Council.

The importance of sustainable employability among staff and the manager's role in this regard was brought to the managers' attention. Employees were given the opportunity to install an app providing them with tips for enhancing their sustainable employability. The pilot phase of this programme runs until the end of the first quarter of 2017.

MOBILITY

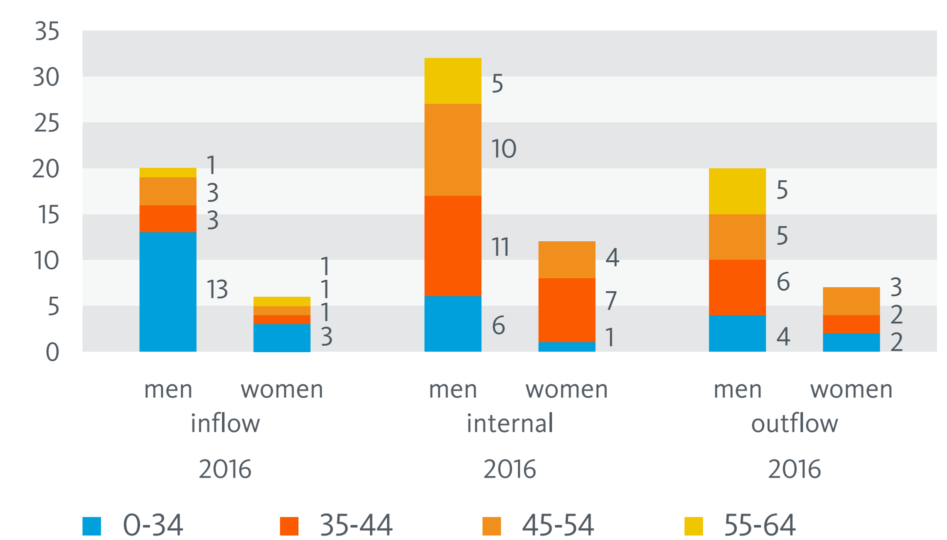
In order to enhance the flexibility and agility of the bank and its employees, attention was focused on ensuring a broad employability of employees in different positions and roles. Broad employability creates value for employees and the bank alike. Gaining experience in multiple positions also contributes to cooperation within BNG Bank and provides synergy benefits across departments. Greater mobility additionally ensures a better distribution of the available knowledge and skills.

In practice, mobility can be achieved through internships (inside and outside the bank), a change of job, internal transfer to other positions, appointments as well as outflow of staff to other work outside the bank.

The workforce is typified by a high number of years of service (over 14 years). At more than 10 years, the average time spent in a position is relatively long. At an average of less than 3%, the rate of job changes has been low in recent years. There is growing interest among employees for gaining experience in other positions and roles. Approximately 5% of employees have increased their mobility in recent years through

INFLOW, INTERNAL TRANSFER AND OUTFLOW OF EMPLOYEES

Number of FTEs



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internships or job switches. The relatively high staff outflow in 2016 is partly attributable to the sale of BNG Vermogensbeheer. The large number of internal redeployments is a result, among other things, of the creation of a new department incorporating parts of other departments.

There is **growing interest** among employees for gaining experience in **other positions** and roles.

In order to respond better to changing needs in terms of (extent of) knowledge, talents, competencies, insights and skills, BNG Bank intends in the future to appoint new and existing employees to a position for a defined period. This will have no impact on the work relationship, which will be maintained as previously. Depending on the developments that are relevant to the position and the employee’s personal interests, agreements will be made after this period to reappoint the employee in the same position or to consider the possibilities for another position, whether inside or outside the bank.

The bank additionally encourages internal work experience initiatives and exchange programmes between positions and/or departments. This is done by actively cataloguing the possibilities and ensuring they can be viewed by everyone, and by keeping the qualifying criteria simple and low-threshold. The vacancy policy is designed to give internal employees priority over external candidates. This policy is intended to lower the average length of time spent in a single position. Mobility is expected to increase in all its forms.

Dilemma: ‘major overhaul’ or practical solution?

Current social and/or economic problems that are (correctly) identified can prompt radical, far-reaching solutions that will potentially have a direct impact on the bank’s business model. This forces the bank to weigh a choice: cooperate constructively in formulating a solution for the issue with major implications for the organisation and its mandate, or alternatively actively commit to maintaining its strong public role for its current client groups who otherwise face adverse consequences for their financing. The bank chooses to leverage its well-established and highly regarded added value for society to offer concrete, tailored solutions that can be quickly implemented. This is preferred over far-reaching, time-consuming institutional reorganisations to resolve an issue that may well be temporary in nature.

Outlook for 2017

BNG Bank expects the total volume of new long-term lending in 2017 to be comparable to the volume in 2016. The bank's clients are expected to remain cautious in making new investments, despite the attractive interest levels for investments and despite the pressure on local authorities and housing associations to facilitate investment in new housing. The bank aims for a market share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions of at least 55% in 2017.

Notwithstanding the high creditworthiness of the bank's exposures, a few debtors may be unable to meet their payment obligations. Therefore, an addition to the debt provision or an additional impairment may also be required in 2017.

The anticipated long-term funding requirement in 2017 amounts to approximately EUR 14.2 billion. The bank's policy is geared to achieving diversification in terms of product, currency and term. Expectations are that two new SRI Bonds will be issued in 2017.

The bank's cost level will rise further, largely as a result of the numerous new regulations that are required to be implemented in the bank's systems and processes. Consolidated operating expenses are expected to amount to EUR 72 million in 2017. The statutory bank levy will also apply in 2017. The bank's contribution,

Two new SRI Bonds are expected to be issued in **2017.**

which is determined on the basis of the balance sheet at year-end 2016, amounts to EUR 36 million. The bank has additionally taken account of a contribution to the European resolution fund of EUR 16 million in 2017.

The interest result for 2017 is expected to range between EUR 370 million and EUR 420 million. Persistently high volatility on the financial markets makes it impossible to give a reliable indication of the unrealised results within the financial transactions result. In view of the persisting uncertainties, the bank does not consider it wise to make a statement regarding the expected net profit for 2017.

Declaration of responsibility

In the opinion of the Executive Board, the financial statements provide a true and fair view of the assets, liabilities, financial position and results of BNG Bank and the subsidiaries included in the consolidation. The Annual Report provides a true and fair view of the position as at the balance sheet date, performance during the reporting year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated financial statements. The Annual Report also describes the material risks facing BNG Bank.

Executive Board

C. VAN EYKELENBURG
CHAIR

O.J. LABE

J.C. REICHARDT

The Hague, 10 March 2017

Consolidated financial statements

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CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	31/12/2016	31/12/2015
ASSETS		
Cash and balances held with central banks[1]	6,417	3,175
Amounts due from banks[2]	11,795	10,540
Financial assets at fair value through the income statement[3]	2,350	2,884
Derivatives[4]	15,412	16,370
Financial assets available-for-sale[5]	15,437	13,459
Loans and advances[6]	87,576	89,366
Value adjustments on loans in portfolio hedge accounting[7]	14,894	13,559
Associates and joint ventures[8]	46	47
Property and equipment[9]	17	16
Other assets[10]	56	27
Assets held-for-sale[11]	–	68
TOTAL ASSETS	**154,000**	**149,511**

Continued on next page

The references refer to the notes to the consolidated financial statements. The notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Continuation of previous page

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	31/12/2016	31/12/2015
LIABILITIES		
Amounts due to banks[12]	3,530	2,968
Financial liabilities at fair value through the income statement[13]	1,190	1,788
Derivatives[14]	24,780	23,261
Current tax liability[15]	31	16
Deferred tax liability[15]	116	206
Debt securities[16]	112,180	110,123
Funds entrusted[17]	7,557	6,869
Subordinated debts[18]	31	31
Other liabilities[19]	99	86
TOTAL LIABILITIES	**149,514**	**145,348**
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	275	320
Cash flow hedge reserve	3	251
Other reserves	2,961	2,797
Unappropriated profit	369	226
EQUITY ATTRIBUTABLE TO SHAREHOLDERS[20]	**3,753**	**3,739**
Hybrid capital[20]	733	424
TOTAL EQUITY[20]	**4,486**	**4,163**
TOTAL LIABILITIES AND EQUITY	**154,000**	**149,511**

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
– Interest income [21]	6,126		6,278	
– Interest expenses [22]	5,721		5,828	
Interest result		405		450
– Commission income [23]	28		32	
– Commission expenses [24]	4		4	
Commission result		24		28
Result on financial transactions [25]		118		16
Results from associates and joint ventures [26]		4		2
Result from sale of assets held-for-sale [27]		34		–
Other results [28]		3		3
TOTAL INCOME		**588**		**499**

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The references refer to the notes to the consolidated financial statements. The notes to the consolidated financial statements are an integral part of the consolidated financial statements.

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CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
– Staff costs [29]	38		38	
– Other administrative expenses [30]	26		27	
Staff costs and other administrative expenses		64		65
Depreciation [31]		2		2
TOTAL OPERATING EXPENSES		**66**		**67**
Impairments [32]		−32		72
Contribution to resolution fund [33]		16		9
Bank levy [33]		35		37
TOTAL OTHER EXPENSES		**19**		**118**
PROFIT BEFORE TAX		**503**		**314**
Taxes [15]		−134		−88
NET PROFIT		**369**		**226**
– of which attributable to the holders of hybrid capital		4		–
– of which attributable to shareholders		365		226

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2016		2015	
NET PROFIT		**369**		**226**
Recyclable results recognised directly in equity (after taxation)				
– Changes in cash flow hedge reserve (after taxation):				
– Unrealised value movements	−250		−124	
– Realised value movements transferred to the income statement	2		–	
		−248		−124
– Changes in the revaluation reserve for financial assets available-for-sale (after taxation):				
– Unrealised value movements	23		46	
– Realised value movements transferred to the income statement	−54		−23	
– Impairments through the income statement	1		63	
– Impairments reversed through the income statement	−39		–	
		−69		86
TOTAL RECYCLABLE RESULTS		**−317**		**−38**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

			2016			2015
Non-recyclable results recognised directly in equity (after taxation):						
– Movement in the Own Credit Adjustment revaluation reserve for Financial liabilities at fair value through the income statement (after taxation):						
– Own Credit Adjustment (OCA) as at 1 January	30			–		
– Movement in OCA	−6			–		
		24			–	
– Movement in actuarial results		0			0	
TOTAL NON-RECYCLABLE RESULTS		**24**			**0**	
RESULTS RECOGNISED DIRECTLY IN EQUITY			**−293**			**−38**
TOTAL			**76**			**188**
– of which attributable to the holders of hybrid capital			4			–
– of which attributable to shareholders			72			188

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	2016		2015	
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax	503		314	
Adjusted for:				
– Depreciation	2		2	
– Impairments	−32		72	
– Unrealised results through the income statement	−53		42	
Cash flow generated from operations		420		430
Changes in Amounts due from and due to banks (not due on demand)	−993		718	
Changes in Loans and advances	1,435		986	
Changes in Funds entrusted	554		−929	
Changes in Derivatives	1,418		4,684	
Corporate Income tax paid	−110		−19	
Other changes from operating activities	−275		−86	
		2,029		5,354
TOTAL CASH FLOW FROM OPERATING ACTIVITIES*		**2,449**		**5,784**

Continued on next page

* Interest received amounted to EUR 5,870 million (2015: EUR 6,263 million) and interest paid amounted to EUR 5,537 million (2015: EUR 5,776 million).

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	2016		2015	
CASH FLOW FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement	–		−18	
– Financial assets available-for-sale	−2,565		−655	
– Associates and joint ventures	−2		−1	
– Property and equipment	−3		−2	
		−2,570		−676
Disposals and redemptions:				
– Financial assets at fair value through the income statement	687		100	
– Financial assets available-for-sale	1,151		844	
– Assets held-for-sale	77		–	
– Investments in associates and joint ventures	3		–	
		1,918		944
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**−652**		**268**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
CASH FLOW FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Hybrid capital	310		425	
– Debt securities	151,495		69,772	
		151,805		70,197
Amounts paid on account of:				
– Debt securities	–149,745		–74,810	
– Financial liabilities at fair value through the income statement	–546		–470	
– Subordinated debts	–1		–1	
– Dividend distribution to the bank's shareholders	–57		–32	
– Dividend distribution to holders of hybrid capital	–8		–	
		–150,357		–75,313
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**1,448**		**–5,116**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2015
NET CHANGE IN CASH AND CASH EQUIVALENTS	**3,245**	**936**
Cash and cash equivalents as at 1 January	3,176	2,240
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**6,421**	**3,176**
Cash and cash equivalents as at 31 December comprise:		
– Cash and balances held with the central banks	6,417	3,175
– Cash equivalents in the Amounts due from banks item	4	3
– Cash equivalents in the Amounts due to banks item	0	−2
	6,421	**3,176**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 01/01/2015	**139**	**6**	**234**	**375**	**2,702**	**126**	**3,582**	**–**	**3,582**
Net profit						226	226		226
Unrealised results			86	−124			−38		−38
Issue of hybrid capital					1		1	424	425
Dividend distribution to the bank’s shareholders					−32		−32		−32
Appropriation from previous year’s profit					126	−126	–		–
BALANCE AS AT 31/12/2015	**139**	**6**	**320**	**251**	**2,797**	**226**	**3,739**	**424**	**4,163**
Net profit						369	369		369
Own Credit Adjustment (OCA) as at 1 January			30				30		30
Movement in OCA in 2016			−6				−6		−6
Unrealised results			−69	−248			−317		−317
Issue of hybrid capital					1		1	309	310
Dividend distribution to the bank’s shareholders					−57		−57		−57
Dividend distribution to holders of hybrid capital					−6		−6		−6
Appropriation from previous year’s profit					226	−226	–		–
BALANCE AS AT 31/12/2016	**139**	**6**	**275**	**3**	**2,961**	**369**	**3,753**	**733**	**4,486**

BNG Bank has not recognised any results from minority interests in the consolidated equity which accrue to third parties. The entire equity, excluding hybrid capital, can be attributed to the shareholders. A dividend distribution was made on hybrid capital for the first time in 2016.

Accounting principles for the consolidated financial statements

GENERAL COMPANY INFORMATION

The consolidated financial statements were prepared and issued for publication by the Executive Board on 10 March 2017 and will be presented to the General Meeting of Shareholders for adoption on 21 April 2017. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2, The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

CRITICAL ACCOUNTING PRINCIPLES APPLIED FOR VALUATION AND THE DETERMINATION OF THE RESULT

The consolidated financial statements are prepared on the basis of the going-concern principle. Most balance sheet items are valued at amortised cost. The balance sheet items Financial assets at fair value through the income statement, Financial assets available-for-sale, Derivatives and Financial liabilities at fair value through the income statement are recognised at fair value. The balance sheet item Investments in associates and joint ventures is stated according to the equity method. The balance sheet item Property and equipment is stated at cost less accumulated depreciation. The actuarial valuation is applied for the provision associated with the mortgage interest rate discount. For a detailed description, please refer to the accounting principles for the individual balance sheet items. All amounts in the consolidated financial statements are stated in millions of euros, unless stated otherwise. The euro is the functional and reporting currency used by BNG Bank. Income is recognised if it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses.

ACCOUNTING PRINCIPLES FOR CONSOLIDATION

Each year, BNG Bank prepares consolidated financial statements for the parent company and its subsidiaries. The financial statements of the parent company and its subsidiaries which are used to prepare the consolidated financial statements are drawn up at the same reporting date, and are based on uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated financial statements. The consolidated financial statements comprise all subsidiaries over which BNG Bank has control.
The consolidation base subject to prudential supervision is identical to the consolidation base under International Financial Reporting Standards (IFRS). Appendix A contains a list of BNG Bank's consolidated subsidiaries.

Control exists if BNG Bank is exposed as an investor to variable returns due to its involvement and is able to influence these returns by exercising control over the relevant activities of the investment. Group companies are consolidated in full from the date control has been acquired until such time as control ceases to exist. In determining whether BNG Bank has control over investment funds in which it holds units or shares, the financial interests held by BNG Bank as a participant are taken into consideration.

INVOLVEMENT IN NON-CONSOLIDATED STRUCTURED ENTITIES

BNG Bank assesses involvement in non-consolidated structured entities on a case-by-case basis, with due regard for the nature, purpose, size and activities of those entities. Investments in investment funds through participating interests or in securitisation positions and covered bond programmes (issued by 'special purpose entities') are non-consolidated structured entities for BNG Bank. Due to its involvement in these entities, BNG Bank is exposed to variable returns, partly based on their performance. These entities are structured so as to ensure that the location of control is not determined by voting rights or similar rights, but rather by the contractual provisions. Structured entities are entities that are incorporated for a specific purpose and clearly delineated activities. BNG Bank does not have control and does not act as a sponsor in these non-consolidated structured entities.

THE USE OF STATISTICS AND METHODS

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The most important methods and estimates relate to the fair value measurement of financial instruments for which there is no active market (for a more detailed description, see the Other Notes, 'Fair value of Financial Instruments'). BNG Bank uses generally accepted valuation models to measure the fair value of these financial instruments. The results of these models are based on various assumptions, including the discount rate and the future expected cash flows. Differences in the assumptions may have an effect on the reported values. Methods and estimates are also used to determine the amortised cost of financial instruments and to measure effectiveness for hedge accounting, impairments, deferred taxes and the employee benefits provision. For a detailed description of the methods and assumptions used, please refer to the accounting principles for the individual balance sheet items or topics. BNG Bank periodically evaluates the estimates and assumptions it applies. Any revisions are reported in the year in which the estimate is revised.

CHANGES IN ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the 2016 financial statements are identical to the figures stated in the 2015 financial statements except for the changes in presentation listed below. The adjustments have not led to any changes in the equity or the result for the 2015 financial year.

The following changes in presentation have been applied to the balance sheet relative to the 2015 consolidated financial statements:

- In the 2016 financial statements, value adjustments on loans involved in portfolio hedge accounting to hedge the interest rate risk have been moved to the new (separate) balance sheet item Value adjustments on loans in portfolio hedge accounting. This amount was accounted for in the 2015 financial statements under the item Other financial assets.
- In the 2016 financial statements, a new item Derivatives has been created under assets as well as liabilities in the balance sheet. The positive and negative fair values, respectively, of derivative transactions are reported under these balance sheet items. This concerns derivatives involved in a hedge accounting relationship as well as derivatives not involved in a hedge accounting relationship. In the 2015 financial statements, the derivatives involved in a hedge accounting relationship were reported under the balance sheet items Other financial assets

and Other financial liabilities. The derivatives not involved in a hedge accounting relationship were reported in the 2015 financial statements under the balance sheet items Financial assets and liabilities at fair value through the income statement.

Due to these changes, the following values have been moved in the comparative figures for year-end 2015:
- EUR 13,559 million by way of value adjustments on loans involved in portfolio hedge accounting to hedge the interest rate risk from the item Other financial assets to the item Value adjustments on loans in portfolio hedge accounting;
- EUR 831 million by way of derivatives not involved in a hedge accounting relationship from the item Financial assets at fair value through the income statement to the asset item Derivatives;
- EUR 15,539 million by way of derivatives involved in a hedge accounting relationship from the item Other financial assets to the asset item Derivatives;
- EUR 1,417 million by way of derivatives not involved in a hedge accounting relationship from the item Financial liabilities at fair value through the income statement to the liability item Derivatives;
- EUR 21,844 million by way of derivatives involved in a hedge accounting relationship from the item Other financial liabilities to the liability item Derivatives.

Changes in disclosure have also been applied to the income statement relative to the 2015 consolidated financial statements. Since the introduction of IFRS in 2005, BNG Bank reported the revenue from the bank's assets and the associated hedging instruments (derivatives) under interest income. Expenses resulting from liabilities and the associated hedging instruments were shown under interest expenses. The consistent decline in interest rates (leading to negative interest in some cases) has prompted the bank to adjust this method. If the yield curves were to become entirely negative, the bank would eventually report a negative figure under interest income and a positive figure under interest expenses. BNG Banks view on this is that the change below will provide more relevant and reliable information as, under the new method, interest income and interest expenses are a more accurate representation of the bank's primary income and expenditure.
- In the 2015 financial statements, both the interest income and interest expenses on assets and the corresponding derivatives, totalling EUR 998 million for 2015, were included under the Interest Income item. In the 2016 financial statements, the interest income from all assets and liabilities, totalling EUR 6,278 million for 2015, are included

under the Interest Income item. This change in disclosure means an increase in the Interest Income item for 2015 of EUR 5,280 million.
- In the 2015 financial statements, both the interest income and interest expenses on liabilities and the corresponding derivatives, totalling EUR 548 million for 2015, were included under the Interest Expenses item. In the 2016 financial statements, the interest expenses from all assets and liabilities, totalling EUR 5,828 million for 2015, are included under the Interest Expenses item. This change in disclosure means an increase in the Interest Expense item of EUR 5,280 million.

APPLICABLE LAWS AND REGULATIONS

The consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and adopted throughout the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code.

APPLIED ACCOUNTING STANDARDS ADOPTED BY THE EU EFFECTIVE 1 JANUARY 2016

BNG Bank has applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2016, to its 2016 financial statements:
- IAS 1 Amendment Disclosure Initiative. This amendment provides further clarification of the IAS 1 requirements and affords greater flexibility in the structure of the notes. In addition, this amendment indicates how companies can apply terms such as ‘professional judgement’, ‘aggregation’ and ‘materiality’ in selecting the information to be disclosed and how to recognise it in the Interim Report and the financial statements. The implications for the disclosures in the financial statements of BNG Bank are very limited;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation. These amendments have no consequences for BNG Bank;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants. These amendments do not apply to BNG Bank;
- IAS 27 Amendment Equity method in separate financial statements. This amendment allows companies to recognise investments in participating interests (subsidiaries, joint ventures and associates) in the company financial statements at cost or in accordance with the equity method as explained in IAS 28. Until the end of 2015, using the cost method was compulsory. This resulted in a difference in equity and result compared with the consolidated financial statements. Since 1 January 2016, BNG Bank has applied the equity method in measuring

investments in participating interests in the company financial statements. This change in measurement basis is to be implemented with retrospective effect, meaning that the comparative figures for the 2015 financial year have been adjusted. The change has implications for the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and the corresponding notes for the 2015 financial year. The adjustment has led to a change in the equity and the result for the 2015 financial year. With effect from 1 January 2015, this has had a negative impact of EUR 5 million on equity and a negative impact of EUR 9 million on the result for 2015 in the bank's company financial statements, eliminating the difference between the company financial statement and the consolidated equity and result;

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities. Applying the Consolidation Exception: these amendments take effect retrospectively as of 1 January 2016. BNG Bank has no investments in investment entities and these amendments therefore have no impact on the bank;
- Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations. These amendments have no consequences for BNG Bank;
- Annual Improvements to IFRSs 2012-2014 cycle. These improvements, which apply retrospectively, relate to standards IFRS 5, IFRS 7, IAS 19 and IAS 34. They have minimal implications for the equity and disclosures in BNG Bank's financial statements.

UNAPPLIED ACCOUNTING STANDARDS EFFECTIVE ON OR AFTER 1 JANUARY 2016

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has in principle also decided against the early application of the amended standards and interpretations adopted by the EU whose application is mandatory for the financial years after 1 January 2016. Application of the following new or amended standards, interpretations and improvements might have led to significant adjustments in the 2016 financial statements in respect of valuation, the determination of the result and the disclosures of the bank.

- Amendments to IAS 7 Disclosure Initiative. these amendments take effect prospectively on 1 January 2017 and define the requirement of additional disclosures in respect of the statement of cash flows for liabilities arising from financing activities. The EU is expected to grant approval in the second quarter of 2017. This standard will have an impact on the disclosures made by BNG Bank;

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. These amendments take effect retrospectively on 1 January 2017 and concern deferred tax assets for unrealised losses which can be offset against future taxable profits. The EU is expected to grant approval in the second quarter of 2017. These amendments have no implications, as the bank has no offsettable losses;
- Amendments to IAS 40 Transfers of Investment Property. These amendments take effect prospectively on 1 January 2018. The EU is expected to grant approval in the second half of 2017. These amendments do not apply to the bank, as BNG Bank has no investment property or property in inventory;
- Amendment to IFRS 2 Classification and Measurement Share based payment transactions. This amendment will take effect on 1 January 2018. The EU is expected to grant approval in the second half of 2017. This amendment does not apply to the bank, as BNG Bank has no share based payment transactions;
- Amendment to IFRS 4 Insurance Contract, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. This standard will take effect on 1 January 2018. The EU is expected to grant approval in 2017. The standard does not apply to the bank, as BNG Bank does not issue insurance contracts;
- IFRS 9 Financial Instruments and Amendments to IFRS 9 and IFRS 7. IFRS 9 will replace IAS 39 Financial Instruments almost entirely, apart from the macro hedge accounting section. The EU adopted the new standard on 22 November 2016 and it will take effect on 1 January 2018. As a result of the amendments, a number of new provisions and textual changes have been implemented in the disclosure requirements (IFRS 7). For further details, please refer to ‘Explanation of the consequences of IFRS 9’ below;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of assets between an investor and its associate or joint venture. These amendments state how an investment in an associate or joint venture should be measured (in connection with fair value) if a subsidiary is deconsolidated. The effective date was 1 January 2016, but has been postponed indefinitely. These amendments apply prospectively to BNG Bank after the final effective date if the bank decides to sell part of its investment in its subsidiaries;
- IFRS 14 Regulatory Deferral Accounts. This standard applies to first-time adopters and will take effect prospectively on 1 January 2016. The European Commission has postponed the processing of this standard pending the definitive version. This standard does not apply to BNG Bank;
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Effective date of IFRS 15. This standard replaces a number of standards and interpretations concerning revenue recognition and applies to client contracts which do not fall under the scope of IAS 17, IAS 39 or IFRS 9, IFRS 4, IFRS 10, IFRS 11, IAS 27 and IAS 28.

The EU adopted IFRS 15 on 22 September 2016 and it will take effect on 1 January 2018. The bank is examining which types of commission received meet this new standard. The implications for BNG Bank´s result, equity and the disclosures are expected to be limited;

- Clarification to IFRS 15 Revenue from Contracts with Customers. These clarifications to IFRS 15 will take effect on 1 January 2018. The EU is expected to grant approval in the second quarter of 2017. See also the previous item;
- IFRS 16 Leases. This standard replaces IAS 17 'Leases', IFRIC 4, SIC-15 and SIC-27, and takes effect prospectively on 1 January 2019. The EU is expected to grant approval in the second half of 2017. The standard introduces a new lease framework: both lessee and lessor are required to recognise all assets and liabilities under the lease contract. BNG Bank concludes several operating lease contracts each year. The effect of this standard on BNG Bank is very limited;
- Annual Improvements to IFRSs 2014-2016 cycle. These improvements relate to standards IAS 28, IFRS 1 and IFRS 12. The improvements under IFRS 12 take effect prospectively on 1 January 2017 and those under IAS 28 and IFRS 1 on 1 January 2018. The EU is expected to grant approval in the second half of 2017. The improvements have no implications for the equity, result and disclosures in BNG Bank's financial statements;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. This interpretation concerns the treatment of non-monetary assets and liabilities in foreign currency and may be applied retrospectively or prospectively as of 1 January 2018. The EU is expected to grant approval in the second half of 2017. BNG Bank already complies with this interpretation.

EXPLANATION OF THE CONSEQUENCES OF IFRS 9

IFRS 9 'Financial Instruments' will replace IAS 39 'Financial Instruments' almost entirely, apart from the macro hedge accounting section. The new standard was adopted by the EU in November 2016 and is compulsory for financial years commencing on or after 1 January 2018. The IFRS 9 standard can be divided into three parts: 'Classification and Measurement', 'Hedge Accounting' and 'Impairment'. IFRS 9 will have consequences for the equity, the classification of financial assets on the balance sheet, the result and the disclosures in the financial statements of BNG Bank.

CLASSIFICATION AND MEASUREMENT

IFRS 9 will lead to changes in the classification and valuation of financial assets. The new standard introduces two tests that will be used to classify and value financial assets.

The 'Business model test' classifies financial assets based on the purpose for which they are being held. Under IFRS 9, there are two types of business models which are relevant to BNG Bank. The first is a 'Hold to Collect' business model in which financial assets are held in order to maintain the contractual cash flows. The second is a 'Hold to Collect and Sell' business model in which financial assets are held both to maintain the contractual cash flows and for sale.

The cash flows of financial assets are assessed using the 'Contractual cash flow characteristics test', also known as the SPPI test (Solely Payments of Principal and Interest test). This test determines whether the contractual cash flows meet the criteria imposed within the standard to be classed solely as payments of principal and interest. Instruments that pass this SPPI test are valued as follows:

- Instruments in a 'Hold to Collect' business model are measured at amortised cost.
- Instruments in a 'Hold to Collect and Sell' business model are measured at fair value with value movements through the equity.

Instruments that fail the SPPI test must be measured at fair value with value movements through the income statement. This also applies to financial assets that (due to an accounting mismatch) are classed as measured at fair value through the income statement. The valuation of derivatives (not embedded in financial instruments) remains unchanged at fair value through the income statement.

Under IFRS 9, investments in equity instruments will be measured at fair value with value movements through the income statement. BNG Bank is not expected to take advantage of the option under the standard to measure these investments at fair value with value movements through the equity.

With regard to the classification and valuation of financial assets under IFRS 9, BNG Bank does not anticipate any significant changes compared to the classification and valuation of financial assets under IAS 39. A limited number of transactions that are measured at fair value under IAS 39 will be recognised at amortised cost under IFRS 9. The differences in carrying amount will be incorporated in the IFRS 9 opening balance sheet under the other reserves in equity. This is expected to have a limited positive effect on the size of the equity.

The classification and valuation of financial liabilities remains unchanged, except for financial liabilities classed as measured at fair value through the income statement. For these liabilities, the value movement due to changes in the Bank’s creditworthiness must be included in the equity (revaluation reserve) and not in the income statement. BNG Bank has decided in favour of the early adoption of this part of IFRS 9 in the 2016 financial statements. Further information can be found below under the heading ‘Transition and early adoption’.

HEDGE ACCOUNTING

The amendments to the hedge accounting regulations are expected to have a limited impact on the Bank’s results. There are no implications for portfolio hedge accounting (or macro hedge accounting), as IAS 39 remains applicable. The application of micro hedge accounting of financial instruments in euros also remains unchanged, which means that the income statement is likewise unaffected.

However, the application of micro hedge accounting of financial instruments in foreign currency will change under IFRS 9. Under IFRS 9, cross-currency basic risk is not treated as hedged risk, but as ‘cost of hedging’. For BNG Bank, this means that value movements arising from the cross-currency basis spread can no longer be included under the cash flow hedge reserve. Instead, this ‘cost of hedging’ will be included under a separate item in the unrealised portion of the equity. Unlike the cash flow hedge reserve, this item will be part of the Tier 1 capital.

IMPAIRMENTS

Under the new impairment method of IFRS 9, the current 'incurred loss' model is replaced with an 'expected credit loss' approach. The new impairment model applies to all exposures for financial assets at amortised cost, financial assets at fair value with value movements through equity (only interest-bearing securities), value adjustments on loans in portfolio hedge accounting, committed credit facilities and financial guarantee contracts.

Under IFRS 9, the exposures mentioned are classified into three groups based on the different stages of credit risk. Stage 1 covers exposures for which the credit risk has not increased significantly since initial recognition. A 12-month expected credit loss is recognised for this group, which is the expected credit loss based on the risk that the exposure will go into default within 12 months after the reporting date. Stage 2 includes exposures for which the credit risk has increased significantly since initial recognition, but that are not yet in default. A lifetime expected credit loss is recognised for these exposures. This concerns the expected deficits in the contractual cash flows during the remaining term of the exposure, calculated at the effective interest rate. Stage 3 refers to exposures that have actually gone into default. For these exposures, an expected credit loss is determined on an individual basis, taking into account any guarantees and collateral received. This is similar to the current method for calculating individual provisions for exposures in default.

The new impairment rules lead to an increase in complexity and in the degree of 'professional judgement' required to effectively calculate the expected credit loss. Amongst other things, this applies to the determination of the probability of default, the loss given default and the exposure at default in the future. These calculations must also take into account forward-looking information of macro-economic factors.

As the new impairment method has a larger scope and the calculations by definition lead to higher provisions, the Bank anticipates a substantial impact on the size of the Bank's (still relatively small) expected credit loss provision.

TRANSITION AND EARLY ADOPTION

BNG Bank has decided in favour of the early adoption of one part of IFRS 9 in the 2016 financial statements. This concerns the presentation of value movements in financial assets at fair value through the income statement as a result of changes in the Bank's own credit risk ('Own Credit Adjustment'/OCA), in accordance with section 7.1.2 of

IFRS 9. Due to the early adoption, movements in the OCA (net of taxes) are not recognised through the income statement but through the unrealised portion of the equity (in this case the revaluation reserve). In the event of a buy back of financial liabilities at fair value through the income statement, the OCA for the transaction in question is transferred from the revaluation reserve to the realised portion of the equity (other reserves). BNG Bank has decided in favour of early adoption, as it eliminates an accounting mismatch because the 'own credit risk' is not hedged. This is a condition for adopting this part of IFRS 9.

In the past, BNG Bank has consistently set the spread for its own credit risk at zero, on the basis of its high ratings and excellent creditworthiness, as a precaution. The adoption of this part of IFRS 9 therefore has no impact on the opening balance sheet as at 1 January 2016, and its correction is immaterial for the presentation of the financial statements (EUR 30 million positive in equity). If the movements in the OCA in 2016 had been recognised through the income statement, this would have led to a result (after tax) of EUR 6 million negative. The total value of the OCA as at 31 December 2016 is EUR 24 million positive (after tax) in equity.

One relevant financial liability was purchased back early in 2016. Application of the OCA would not have materially influenced the calculation of the buyout result. Apart from the value movements arising from the OCA, no other amendments were applied in the classification and valuation of the instruments in the balance sheet item financial liabilities at fair value through the income statement.

SEGMENTED INFORMATION

When deciding on the deployment of resources and performance measurement, BNG Bank distinguishes between lending activities and area development activities. In the management and set-up of its lending operations, BNG Bank does not distinguish between different segments or business units. The Bank's area development activities are not material compared to its lending activities. Therefore, no specific segmented information is included in the financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the price (not adjusted for transaction costs) which, regardless of the company's intention or capability, would be received if a financial asset was sold, or the price that would be paid if a financial liability was transferred in an orderly transaction between market participants as at the measurement date under the current market conditions. The starting point is that the valuation must be viewed from the perspective of market parties, whereby only the specific characteristics and limitations of the financial instrument may be taken into consideration. Fair value is based on quoted market prices in active markets or, if unavailable, on modelled valuation techniques. Valuation techniques are generally used to determine the fair value of unlisted assets and liabilities and OTC derivatives. This concerns generally accepted techniques and methods such as option pricing models, discounted cash flows, forward pricing and credit and liquidity spreads. Contractual provisions are taken into account and available objective market data are used, such as market-based yield curves for discounting, correlations, volatilities, cross-currency basis spreads, credit spreads, valuation adjustments and other factors, estimates and assumptions which market parties would use to determine the price. Fair value 'Level 3' valuations are based in part on assumptions that are not observable in the market.

For a detailed description of how the fair value measurement is determined, please refer to the Other notes to the consolidated financial statements.

IMPAIRMENTS

In the Impairments item, BNG Bank recognises the changes in the incurred loss provision for financial assets in the balance sheet items Amounts due from banks and Loans and advances, impairments of financial assets in Financial assets available-for-sale and Associates and joint ventures and impairments of non-financial fixed assets. The amount of the impairment is the difference between the carrying amount and the present value based on expected future cash flows.

IMPAIRMENT OF FINANCIAL ASSETS

At the balance sheet date, all financial assets are reviewed as to whether there are objective indicators that indicate impairment. A financial asset is subject to impairment if objective indications exist that one or more events after initial recognition had a reliably estimated negative effect on expected future cash flows from that asset. BNG Bank establishes objective indicators in the event of a major change in market conditions, for example in share prices and exchange rates, interest rates, degree of market liquidity, the creditworthiness of counterparties and the probability of default (in terms of amount and timeliness) of the cash flows to be received. Impairments concern two groups of financial assets of BNG Bank:

- Financial assets carried at amortised cost; and
- Financial assets carried at fair value, with value movements recognised through equity (revaluation reserve for financial assets available-for-sale).

Financial assets which were subject to impairment are reassessed at each balance sheet date. Impairment of a financial asset, except for investments in equity instruments, is reversed through the income statement (Impairments item) if it is possible to reliably establish that the negative effects of the indication for the impairment recognised earlier are mitigated. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount which would have been determined if no impairment had been recognised. Impairment of an investment in an equity instrument in the Financial assets available-for-sale item cannot be reversed.

FINANCIAL ASSETS CARRIED AT AMORTISED COST

For outstanding loans and receivables in the Amounts due from banks and Loans and advances items, which are carried at amortised cost, BNG Bank creates an incurred loss provision which is charged to the income statement. In determining impairments, a distinction is made between loans and receivables involving an objective indication of impairment and loans and receivables for which there is no objective indication of impairment.

In forming an incurred loss provision, BNG Bank first determines whether there are any indications of impairment of individual debts. For all items involving an objective indication of impairment, an estimate is made at individual counterparty level of the present value of the future cash flows. The assumptions applied in this context include (estimates of) the (forced-sale) value of collateral, payments still to be received, the timing of these payments and the discount rate. Uncertain future loss events are not taken into account.

Receivables for which no objective indication of impairment exists are included in the collective assessment of the so-called Incurred But Not Identified loss model (IBNI). This portfolio method considers the off-balance exposures as well as the credit exposures. Important parameters in calculating the IBNI are the EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and LEP (Loss Emergency Period of nine months). The determination of the provision according to the IBNI method seeks to align the outcome of the internal rating models and the associated probability of a loss.

Both the individual provision and the collective provision fall under the regulatory specific credit risk adjustments. This concerns adjustments relating to:
- Credit risk of an entire group of exposure, or;
- Credit risk of an individual exposure.

If an financial asset carried at amortised cost becomes permanently irrecoverable, it is charged to the incurred loss provision created, with any difference being charged or added to the Impairments income statement item.

FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH EQUITY

The impairments concern here two groups of BNG Bank's financial assets carried at fair value through equity:
- Investments in equity instruments;
- Investments in debt instruments.

In addition to the general objective indicators for impairment, investments in available-for-sale equity instruments, such as participating interests, also involve objective indications for impairment if the cost persistently exceeds the realisable value, that is, if the fair value is persistently (for more than nine months) or significantly (more than 25%) lower than the cost. If there are objective indications of impairment for these investments, the difference between the purchase price and the current fair value, less any impairments recognised earlier, is recognised in the Impairments income statement item, charged to the carrying amount and/or credited to the revaluation reserve in equity.

Investments in debt instruments, such as interest-bearing securities, are assessed for impairment if there are objective indications of the loss of a market, of the counterparty facing financial problems or other indications. Any impairment in available-for-sale investments is recognised in the Impairments income statement item, charged to the carrying amount and/or credited to the revaluation reserve in equity.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amount of BNG Bank's non-financial assets (property and equipment, investments in associates and joint ventures), with the exception of deferred tax assets, is assessed twice a year in order to determine whether there are objective indications of impairment. To determine impairments, an estimate is made of the realisable value and individual assets are divided into groups at the lowest level at which future cash flows can be identified (cash flow generating units). The goodwill included in a participating interest is not considered separately in the impairment assessment, but is incorporated in the total carrying amount.

The realisable value of an asset or cash flow generating unit is equal to the higher of the value in use, or the fair value minus selling costs. In determining the value in use, the present value of the estimated future cash flows is calculated using a discount rate before tax which reflects both the current market appraisals of the time value of money and the specific risks relating to the asset. Impairments recognised in respect of cash flow generating units are first offset against the carrying amount of any goodwill allocated to the units and subsequently offset pro rata against the carrying amount of the other assets of the unit (or group of units).

Non-financial assets which were subject to impairment are reassessed at each balance sheet date. Impairment of a non-financial asset, with the exception of goodwill included in non-financial assets, is reversed through the income statement (Impairments item) if it is possible to reliably establish that the negative effects of the indication for the impairment recognised earlier are mitigated. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount minus depreciation or amortisation, which would have been determined if no impairment had been recognised.

BALANCE SHEET NETTING

Financial assets and financial liabilities are only netted on the balance sheet if and insofar as it is certain that the net and simultaneous settlement of the amount receivable and the amount payable can be legally enforced under normal circumstances and also in the event of default, insolvency and liquidation, and if there is a distinct intention to settle either the net amount as such, or both items simultaneously. For derivatives and taxes, please refer to the specific additional netting rules for the relevant balance sheet items.

FOREIGN CURRENCY

The euro is the functional currency and reporting currency used by BNG Bank, including its group companies. Foreign currency transactions are translated into functional currency on initial recognition at the exchange rate applicable on the transaction date. At the balance sheet date, foreign currency transactions are translated into functional currency at the closing rate. Exchange rate results are recognised at the balance sheet date in the income statement, under the Result on financial transactions item, with the exception of (the effective portion of) the foreign currency transactions that were designated in a cash flow hedge accounting relationship. These exchange rate differences are recognised in the cash flow hedge reserve.

RECOGNITION AND ACCOUNTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognised based on the transaction date. This means they are recognised from the moment the bank is entitled to the benefits or is liable for the obligations arising from the contractual provisions of the financial instrument. This includes both traditional financial instruments (loans, interest-bearing securities and debt securities) and derivatives.

Financial assets and liabilities are initially recognised at the transaction price, in other words the fair value plus the transaction costs that are directly attributable to the acquisition of the financial asset or issuance of the financial liability, with the exception of the transactions recognised at fair value. The transactions included in the latter balance sheet item are measured at fair value without taking into account the transaction costs.

If the fair value of transactions recognised at fair value differs from the transaction price on initial recognition, the profit or loss is included as follows:

- For fair value level 1 or 2 transactions, the difference is recognised directly in the Result on financial transactions item of the income statement.
- For fair value level 3 transactions, the difference is included in the balance sheet as a transitory item, and amortised over the term of the transaction to Result on financial transactions.

After initial recognition, financial assets and liabilities are measured at either amortised cost or fair value, depending on the classification of the transaction. In addition to the notional amount, the amortised cost consists of accrued interest, settled transaction costs and/or premiums or discounts distributed in accordance with the effective interest method over the interest rate maturity of the transaction.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognised if:

- the contractual right to receive cash flows from the asset has expired; or
- BNG Bank has retained the right to receive cash flows from the asset, but has assumed a contractual obligation to pass on these cash flows, in full and without material delay, to a third party pursuant to a special arrangement; or
- the contractual rights to receive cash flows from the asset and virtually all the risks and benefits of this asset have been transferred, i.e. when control over the asset has been transferred.

A financial liability is derecognised when the obligation specified in the contract has been discharged or cancelled or has expired.

When selling or buying financial assets and liabilities, BNG Bank applies the First In, First Out (FIFO) principle. The difference between the amount settledand the carrying amount of the asset or liability is immediately and fully recognised in the income statement. If an existing financial asset or liability is contractually exchanged for another contract with the same counterparty on substantially the same terms, the new asset or liability is treated as a continuation of the existing asset or liability. No result is recognised in this case.

TRANSFER OF FINANCIAL ASSETS

BNG Bank retains the financial assets transferred on its balance sheet if all or substantially all of the risks and benefits attached to (components of) the financial assets transferred are retained. For example, the bank may transfer financial assets while retaining all or nearly all of the risks and benefits in the context of repurchase transactions.

RECOGNITION AND ACCOUNTING OF DERIVATIVES

From initial recognition, derivatives are in principle carried at fair value, and any fair value movements are recognised under the Result on financial transactions item in the income statement. Derivatives are generally included under assets if they have a net positive fair value or under liabilities for a net negative fair value, with the exception of derivative transactions entered under a 'central clearing house'. For these derivatives, netting takes place of the fair value of all derivatives with a financial counterparty that acts as an intermediary between the bank and the 'central clearing house'.

SEPARATED DERIVATIVES EMBEDDED IN FINANCIAL INSTRUMENTS

Derivatives embedded in financial instruments are classified and valued separately if all of the following conditions have been met:

- There is no close relationship between the economic characteristics and risks of the embedded derivative and those of the financial instrument.
- The financial instrument is not carried at fair value, with value movements recognised through the income statement.
- A separate derivative instrument on the same terms would match the definition of a derivative.

Derivatives that meet these conditions are recognised in the Derivatives balance sheet item and carried at fair value. Contracts are only re-assessed if there is a change in the contractual terms which materially affects the expected cash flows.

NON-SEPARATED DERIVATIVES EMBEDDED IN FINANCIAL INSTRUMENTS

Derivatives that do not meet the conditions to be separated are included in the balance sheet item where the financial instrument is recognised. This usually concerns options relating to early redemption. The measurement of these derivatives follows the measurement of the financial instrument. If this is the amortised cost, the option is in principle measured at zero. In all other cases, the option is measured at fair value.

HEDGE ACCOUNTING

BNG Bank applies economic hedging in order to fully mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. Further information on the types of hedging can be found in the 'Hedging risks using derivatives' section of the Other Notes.

In principle, BNG Bank only uses derivatives as hedging instruments. They are mandatorily measured at fair value in the balance sheet. The counterpart in the hedging relationship is the hedged item, which is generally recognised at amortised cost. Insofar as the hedge accounting relationship is effective, hedge accounting enables the bank to neutralise the difference in measurement and result recognition between the hedging instruments and the hedged items. BNG Bank applies both fair value and cash flow hedge accounting. On the trade date of a derivative transaction, it is determined at inception whether and how this transaction will be involved in a hedge accounting relationship.

Hedge accounting is only applied when the formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between the two and the objective of the hedge. Hedge documentation should demonstrate that the hedge is expected to be effective and the way in which effectiveness is determined. Effectiveness means that, during the reporting period, there are opposing risks between the hedging instrument and the hedged item, which are within the limits defined by IAS 39 (80% – 125%). It should furthermore be demonstrated that the hedge will remain effective for the remaining term. The net ineffective portion of the hedge relationship is recognised directly in the Result on financial transactions item of the income statement.

The hedge accounting relationship is discontinued when it no longer meets the conditions for hedge accounting, or when the hedged item or hedging instrument is sold or matures. The difference between the preceding balance sheet value and the amortised cost of the hedged item is amortised over the remaining period of the hedged item, to the extent that it is retained on the balance sheet. If all or part of a hedged item is sold or purchased, the relevant portion of the cumulative fair value changes is taken into account when determining the result on sales.

FAIR VALUE HEDGE ACCOUNTING

BNG Bank applies two types of fair value hedge accounting: micro-hedging and portfolio hedging. Micro-hedging is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. In the case of micro-hedging, there is an apparent one-on-one relationship between the hedged item and the hedging instrument. BNG Bank applies micro-hedging to (a large part of) the financial liabilities classified under the Funds entrusted and Debt securities balance sheet items, as well as to large portions of the (highly) liquid assets in the Financial assets-available-for-sale item.

Portfolio hedging concerns a group of transactions in euros that are hedged for interest rate risk using a portfolio of derivatives. BNG Bank applies portfolio hedging to the majority of long-term fixed-interest loans (Loans and advances item) and a limited number of fixed-interest securities (Financial assets available-for-sale item). There is no relationship between individual hedged items and hedging instruments, but it is shown at the portfolio level that the derivatives involved offset the value changes in the related assets arising from interest rate movements. Due to the lack of a direct relationship between the assets and the derivatives used for hedging, the value adjustments of the hedged interest rate risk – unlike the micro-hedging situation – are recognised in the Value adjustments on loans in portfolio hedge accounting balance sheet item.

CASH FLOW HEDGE ACCOUNTING

Cash flow hedging is used to hedge possible variability in future cash flows due to exchange rate differences. BNG Bank applies cash flow hedge accounting to foreign-currency financial liabilities included in micro-hedging which are recognised primarily in the Funds entrusted and Debt securities items, as well as in (highly) liquid assets in foreign currency in the Financial assets-available-for-sale item. The effective portion of changes in the fair value of hedging instruments, arising from changes in the foreign exchange rates, is not recognised in the income statement but in the cash flow hedge reserve in the equity.

CASH AND BALANCES HELD WITH CENTRAL BANKS

This item comprises all legal tender as well as cash balances and deposits held with the Dutch Central Bank (DNB) and the European Central Bank (ECB).

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These asset items include receivables (including reverse repurchase transactions) from banks and loans to clients. In addition, interest-bearing securities are included in these items if they are not traded on an active market. Assets in Amounts due from banks and Loans and advances are carried at amortised cost.

In 2008, a number of Financial assets available-for-sale were reclassified and transferred to the Amounts due from banks item and the Loans and advances item. After reclassification, these assets were initially recognised at fair value as at 1 July 2008. The difference between the fair value and the redemption value as at 1 July 2008 is amortised over the remaining terms of the individual contracts.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

In the past, BNG Bank has occasionally used the option to designate individual assets and liabilities such as loans and interest-bearing securities at fair value, with full result recognition through the income statement. Transactions are designated at fair value through the income statement if:

- the purpose is to exclude an accounting mismatch; or
- a portfolio is managed and evaluated on the basis of fair value; or
- it concerns an instrument with an embedded derivative that is not separated.

In principle, the fair value designation of transactions, which is irrevocable, takes place at the trade date.

DERIVATIVES (ASSETS AND LIABILITIES)

All derivative transactions, except non-separated derivatives embedded in financial instruments, are recognised at fair value in the Derivatives balance sheet items (assets and liabilities). Value movements are recognised under the Result on financial transactions item in the income statement.

VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

This balance sheet item includes value adjustments resulting from the fair value portfolio hedge accounting. This refers to the effective portion of movements in market value resulting from hedging the interest rate risk in financial assets at the portfolio level. The value adjustments recognised are amortised over the maturity period of the hedged financial assets in the income statement.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Interest-bearing securities for which there is an active market at the trade date – insofar as they are not recognised in Financial assets at fair value through the income statement – are classified under the Financial assets available-for-sale item. This also applies to equity instruments, as long as the bank has no significant influence. These assets are retained for an indefinite period and may be sold, if desired. They are measured at fair value and value movements are recognised in the revaluation reserve in equity.

The fair value of equity instruments such as participating interests for which no market quotation is available is determined by means of valuation methods, such as the net present value method or the equity method, from which the shareholder value can be derived. If equity instruments are not quoted on an active market and the fair value cannot be reliably determined, valuation at cost will be allowed.

If interest-bearing securities are involved in a fair value hedge accounting relationship, the effective portion of the hedge is accounted for in the result, and not in equity. The interest result amortised on the basis of the effective interest method and any currency revaluation are recognised directly in the income statement. In the event that interest-bearing securities and participating interests are sold, the cumulative fair value movement is deducted from equity and recognised in the Result on financial transactions item of the income statement.

ASSOCIATES AND JOINT VENTURES

Associates and joint ventures are stated according to the equity method. Associates are companies over which BNG Bank has significant influence on operational and financial policy but no control. In general, significant influence is assumed when BNG Bank holds between 20% and 50% of the shares or voting rights. Joint ventures are collaborations in which BNG Bank and other parties with joint control over the contractual agreements have contractual entitlements to the net assets. These contractual agreements are structured by means of separate legal entities. The joint control of the arrangement is contractually agreed and only exists if the relevant activities under the arrangement require the unanimous consent of the parties sharing control. For a description of the bank's associates and joint ventures, please refer to the Other Notes in the consolidated financial statements.

PROPERTY AND EQUIPMENT

All property and equipment owned by the bank is valued at cost less accumulated depreciation. Property relates to land, buildings and technical installations. Equipment relates to office machinery, inventory, furniture, hardware, software and artworks. The depreciation period is determined on the basis of the estimated useful life of the assets (see note 9 to the consolidated financial statements). The estimated useful life and residual value are reviewed annually. Depreciation is calculated on a straight-line basis and charged to the income statement. Land is not depreciated.

ASSETS AND LIABILITIES HELD-FOR-SALE

Assets and liabilities are classified as held-for-sale if they meet all the conditions set out below:

- The relevant group of assets and liabilities must be available for immediate sale.
- The sales must be highly probable.
- Management is committed to executing the plan to sell.
- The asset must be currently marketed actively at a price which represents the fair value of the group of assets and liabilities.
- The intention to sell must lead to the actual sale of the asset within one year.

Assets and liabilities held-for-sale are disclosed separately in the balance sheet with separate explanatory notes. With the exception of a number of individual assets or (part of a) group of assets, assets and liabilities held-for-sale are measured at the lower of the carrying amount and the fair value, less the selling costs. The excluded assets, which includes financial assets, are measured in line with their own measurement bases. An impairment is recognised if the fair value less the selling costs is lower than the carrying amount, both initially and subsequently. Revaluation after the initial recognition of assets and liabilities held-for-sale is recognised as the result on continued activities (before tax) in the income statement.

AMOUNTS DUE TO BANKS, DEBT SECURITIES, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

Borrowings (including repurchase transactions) and debt securities are carried in the balance sheet at amortised cost. As regards transactions in Debt securities and Funds entrusted involved in a micro fair value hedge accounting relationship, the amortised cost is adjusted for the effective portion of the movements in fair value arising from interest rate risk. Any repurchased obligations are removed from the balance sheet, and the difference between the carrying amount and the transaction value is recognised in the income statement.

EMPLOYEE BENEFITS

PENSIONS

The bank classifies its multi-employer pension plan as a defined contribution plan. Under this plan, the members bear almost all of the actuarial and investment risks, while the employer members of the plan are under no obligation to make any supplementary contributions if a deficit occurs in the fund. The obligations consist of payment of the contribution determined by the pension fund. The pension fund determines the contribution each year based on the information contained in its own dataset, taking account of the parameters and requirements specified by the regulatory authority. The obligation to pay a contribution takes effect upon becoming a pension fund member in the relevant year, and not from membership in previous years. The employer's share of the pension contribution and any supplementary amounts are charged to the result in the year to which the contribution relates.

OTHER EMPLOYEE BENEFITS

Other employee benefits are classified as defined benefit plans for which separate provisions have been formed. Other employee benefits include the continued granting of interest rate discounts on mortgage loans for the benefit of both active and retired BNG Bank employees. The level of the provision is determined on the basis of calculations made every two years by independent actuarial experts, using the Projected Unit Credit Method (PUCM). The provision associated with the mortgage interest rate discount is stated under the Other liabilities balance sheet item. The costs relating to the employee benefits are recognised as staff costs in the income statement. All actuarial results are recognised directly through equity and cannot be recycled to the income statement in subsequent periods. From 1 January 2015, the Other employee benefits item also includes a provision for a vitality leave scheme. Under this scheme, active employees with seven or more years of service can take two consecutive months of leave whilst retaining part of their monthly income. The vitality leave scheme is recognised as an amendment to the defined benefit plan and is initially recognised through the income statement; this also applies to the revaluations arising from actuarial results.

TAXES

The nominal tax amount is calculated on the basis of the statutory nominal tax rates and the tax legislation in force. Tax rate adjustments relating to previous years, participation exemptions and non-deductible costs are also applied when determining the effective tax amount in the income statement. Deferred tax assets and deferred tax liabilities are both carried at nominal value. All deferred tax assets and liabilities are stated in the accounts of the parent company of the fiscal unit. Group companies that form part of the fiscal unit use the applicable nominal tax rate.

Deferred tax assets and liabilities are recognised as temporary differences between the carrying amounts and the tax bases of assets and liabilities. The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, for the revaluation reserve for financial assets available-for-sale and for the cash flow hedge reserve, which all directly change within equity. These deferred tax assets and liabilities are calculated on the basis of current tax rates relating to the periods in which they are expected to be realised. Differences in deferred tax assets and liabilities resulting from a change in tax rates are recognised in the income statement. Deferred tax assets are recognised only to the extent to which taxable profits are expected to be available in the near future to compensate for these temporary differences.

Tax assets and liabilities, both current and deferred separately, are netted if they concern the same tax authority and the same type of tax and if netting of these assets and liabilities is permitted by law.

EQUITY

The balance sheet is drawn up before profit appropriation. This means that the total net result for the financial year is presented in equity. The revaluation reserve for financial assets available-for-sale and the cash flow hedge reserve are adjusted by recognising a deferred tax asset.

HYBRID CAPITAL

The privately issued hybrid capital comprises perpetual loans with an annual non-cumulative discretionary interest payment on the original principal amount. The mandatory depreciation of the original principal amount occurs in the event the contractual trigger ratio has been reached. The depreciated amount is transferred to the Other reserves. Depreciation from the Other reserves is reversed the moment the trigger ratio is once again exceeded. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a dividend charged to the Other reserves. The dividend distribution is determined unchanged on the basis of the original principal amount. The dividend distribution is deductible before corporate income tax. This perpetual capital instrument is classified as equity. BNG Bank has the unilateral contractual option of buying back the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased from May 2021, and subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased from May 2022.

REVALUATION RESERVE

Equity includes a revaluation reserve in which the unrealised changes in fair value of Financial assets available-for-sale, net of tax, are recognised. This revaluation reserve also includes the changes in fair value net of tax recognised until 1 July 2008, relating to assets reclassified in 2008 and transferred from Financial assets available-for-sale to Amounts due from banks and Loans and advances. This portion of the revaluation reserve is amortised over the remaining maturity period of the reclassified assets and recognised under Interest result in the income statement. In the event of a sale, the cumulative revaluation results are recognised in the result on sales. The effective portion of fair value changes in transactions involved in hedge accounting is either credited or charged to the income statement during the period in which the transactions are involved in a hedge accounting relationship.

From 1 January 2016, Financial assets at fair value through the income statement are recognised at the relevant purchase curve, including the spread for ‘own credit risk’. The Bank has decided to recognise this Own Credit Risk Adjustment (net of deferred tax assets and liabilities) in the revaluation reserve in equity.

CASH FLOW HEDGE RESERVE

Furthermore, equity includes a cash flow hedge reserve in which the effective portion of the unrealised changes in the fair value of derivatives in cash flow hedge accounting, net of taxes, resulting from changes in the foreign exchange rates is recognised. The ineffective portion of the hedged risk for cash flow hedge accounting is recognised under Results of financial transactions.

INTEREST INCOME AND INTEREST EXPENSES

Interest income and Interest expenses for all interest-bearing instruments included in the balance sheet are calculated on the basis of amortised cost. The effective interest method is used to determine amortised cost. If a transaction valued at amortised cost is sold, the difference between the carrying amount and the net proceeds of the sale is recognised under Interest Result.

COMMISSION INCOME AND COMMISSION EXPENSES

In this item, the commission and fees paid or received are recognised in the period in which the services were provided.

RESULT ON FINANCIAL TRANSACTIONS

This item comprises unrealised market value changes in:

- all financial instruments due to foreign exchange rate fluctuations;
- derivatives measured at fair value, including market value changes due to the counterparty credit risk (Credit Valuation Adjustment) and due to own credit risk (Debit Valuation Adjustment) for derivative transactions without a daily or limited exchange of collateral;
- financial instruments measured at fair value, with changes in fair value recognised through the income statement;
- effective portions of the hedged interest rate risk in financial assets involved in a fair value hedge accounting relationship;
- the amortisation of changes in value to loans and advances in the hedge accounting portfolio; and
- the ineffective portion of the hedged risk for cash flow hedge accounting.

This item also includes sales and buy-out results for financial instruments measured at fair value. These realised results consist of the difference between the net proceeds of the sale and the carrying amount, including the release of value movements accumulated in the equity. Returns from the participating interests (equity instruments) included under Financial assets available-for-sale are also recognised under this item.

Finally, differences between the fair value and transaction price of financial assets and liabilities measured at fair value on initial recognition are also included under this item. For fair value level 1 and 2 transactions, the difference is recognised directly in the income statement; for fair value level 3 transactions, it is amortised over the term of the transaction.

RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures, valued in accordance with the equity method. Dividend payments are recognised in the income statement when they are received.

RESULT FROM SALE OF ASSETS HELD-FOR-SALE

Results are recognised under this item at the time of sale of the relevant asset held-for-sale. See under 'Assets and liabilities held-for-sale'.

OTHER RESULTS

Other results include the results not relating to BNG Bank's core operational activities.

DEPRECIATION

Please refer to the Property and equipment section.

CONTRIBUTION TO RESOLUTION FUND

The European resolution regime entered into force on 1 January 2015. This regime is based on the EU Bank Recovery and Resolution Directive (BRRD). The full amount payable will be charged to the income statement in the month of payment. The annual contribution to the European resolution fund is recognised in the income statement under the item Contribution to resolution fund.

BANK LEVY

The Bank Tax Act entered into force on 1 October 2012. In accordance with the Act, banks are required to pay a bank levy in October each year. The full amount payable will be charged to the income statement in the month of payment. The annual levy is recognised in the income statement under the item Bank levy.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income presents the aggregate net result of the reporting period and the direct changes in equity, net of taxes where applicable. In the statement, the amounts net of taxes are presented in groups of items that can be reclassified from equity to the income statement in the future and items that can never be reclassified.

CASH FLOW STATEMENT

The cash flow statement has been drawn up in accordance with the indirect method. The cash flows are categorised as cash flows from operating, investing and financing activities. Cash and cash equivalents include cash at hand, the available balances with banks and central banks and overnight interbank loans. These funds have less than three months' maturity from the date of acquisition, are readily convertible into a known amount of cash and are subject to a negligible risk of changes in value.

The changes in loans and advances, funds entrusted, derivatives and amounts due from and due to banks are included in the cash flow from operating activities. Investing activities comprise purchases, sales and redemptions in the investment portfolio, as well as purchases and sales of associates and joint ventures and property and equipment. Drawdowns and repayments of subordinated debts and bond loans, as well as the dividend paid, are presented as financing activities.

Notes to the consolidated financial statements

Amounts in millions of euros.

Note 35 includes a breakdown of balance sheet values by remaining contractual maturity (due on demand and not due on demand).

1 CASH AND BALANCES HELD WITH THE CENTRAL BANKS

	31/12/2016	31/12/2015
Current account balances with the central banks (due on demand)	6,417	3,175
TOTAL	**6,417**	**3,175**

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2 AMOUNTS DUE FROM BANKS

The Amounts due from banks item includes all receivables from banks measured at amortised cost, as well as interest-bearing securities issued by banks for which there is no active market.

	31/12/2016	31/12/2015
Short-term loans and current accounts	4	3
Cash collateral	11,541	10,041
Long-term lending	10	11
Interest-bearing securities	–	100
Reclassified available-for-sale transactions	240	385
TOTAL	**11,795**	**10,540**

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as measured at fair value with changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Loans and advances	904	885
Interest-bearing securities	1,446	1,999
TOTAL	**2,350**	**2,884**

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No new loans and advances or interest-bearing securities were included in this item in 2016. The total redemption value of these loans and advances and securities at year-end 2016 is EUR 1,724 million (2015: EUR 2,118 million). Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

In the fourth quarter of 2016, BNG Bank sold and then later repurchased three English inflation-linked interest-bearing securities at the fair value of approximately EUR 630 million. During this period, virtually all risks had been transferred to a third party. In accordance with the IFRS guidelines, these securities are therefore derecognised. Following their repurchase, these securities were included in the Financial assets available-for-sale item. No result was realised on this transaction.

4 DERIVATIVES

This balance sheet item includes the positive fair value of derivatives. Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Derivatives not involved in a hedge accounting relationship	1,069	831
Derivatives involved in a portfolio hedge accounting relationship	4,428	4,277
Derivatives involved in a micro hedge accounting relationship	9,915	11,262
TOTAL	**15,412**	**16,370**

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5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments, if they are not recognised in Amounts due from Banks, Loans and advances, Financial assets at fair value through the income statement and Investments in participating interests.

	31/12/2016	31/12/2015
Interest-bearing securities, issued by:		
– Government	8,225	8,488
– Supranational organisations	1,217	1,020
– Credit institutions	2,357	1,757
– Other financial institutions	2,629	1,675
– Non-financial institutions	984	495
Investments in participating interests	25	24
TOTAL	**15,437**	**13,459**

TRANSFERS WITHOUT DERECOGNITION

No financial assets were transferred without derecognition in relation to repurchase transactions at year-end 2016 and 2015.

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6 LOANS AND ADVANCES

The Loans and advances item includes all loans and advances granted measured at amortised cost, as well as interest-bearing securities (not issued by banks) for which there is no active market.

	31/12/2016	31/12/2015
Short-term loans and current accounts	4,891	4,328
Reverse repurchase transactions	–	501
Long-term lending	81,260	82,702
Interest-bearing securities	272	309
Reclassified available-for-sale transactions	1,195	1,575
	87,618	89,415
Incurred loss provision	−42	−49
TOTAL	**87,576**	**89,366**

The EUR 42 million (2015: EUR 49 million) incurred loss provision comprises EUR 26 million (2015: EUR 33 million) in individual provisions and EUR 16 million (2015: EUR 16 million) to the collective provision (IBNI).

	2016	2015
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	−49	−53
Additions during the financial year	−4	−7
Release during the financial year	8	6
Withdrawals during the financial year	3	5
CLOSING BALANCE	**−42**	**−49**

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7 VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

This refers to the value adjustments of the effective portion of the hedged interest rate risk of loans and advances involved in a hedge accounting relationship.

	2016	2015
MOVEMENTS OF VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING		
Opening balance	13,559	16,044
Movements in the unrealised portion in the financial year	2,818	−1,211
Amortisation in the financial year	−1,446	−1,256
Realisation from sales in the financial year	−37	−18
CLOSING BALANCE	**14,894**	**13,559**

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8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	INTEREST		BALANCE SHEET VALUE	
ASSOCIATES				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	2
SUBTOTAL			**3**	**2**
JOINT VENTURES				
BNG Gebiedsontwikkeling BV, various Participations	See Other Notes		43	45
TOTAL			**46**	**47**

For summarised financial information on associates and joint ventures, please refer to Other notes to the consolidated financial statements.

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9 PROPERTY AND EQUIPMENT

The movement in this balance sheet item is as follows:

	2016	2015	2016	2015	2016	2015
	PROPERTY		EQUIPMENT		TOTAL	
HISTORICAL COST						
Value as at 1 January	48	47	15	14	63	61
Investments	1	1	2	1	3	2
Disposals	0	0	0	0	0	0
Value as at 31 December	49	48	17	15	66	63
DEPRECIATION						
Accumulated depreciation as at 1 January	34	33	13	12	47	45
Depreciation during the year	2	1	0	1	2	2
Accumulated depreciation as at 31 December	36	34	13	13	49	47
TOTAL	**13**	**14**	**4**	**2**	**17**	**16**

ESTIMATED USEFUL LIFE	
Buildings	33⅓ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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10 OTHER ASSETS

	31/12/2016	31/12/2015
Various receivables	56	27
TOTAL	**56**	**27**

The other receivables are primarily composed of amounts receivable from lending to clients.

11 ASSETS HELD-FOR-SALE

In late April 2016, the AFM approved the sale of BNG Vermogensbeheer BV to ASR Nederland NV. The transfer was subsequently completed in May 2016 with retroactive effect to 1 January 2016. The sale of the shares resulted in a loss of control in BNG Vermogensbeheer and deconsolidation took place. All the assets and liabilities of BNG Vermogensbeheer and the bank's interest in BNG Depositofonds were derecognised from the consolidated balance sheet and the result from this sale was recognised in the income statement (see note 27 Result from sale of assets held-for-sale).

	31/12/2016	31/12/2015
Interest in BNG Depositofonds	–	67
BNG Vermogensbeheer	–	1
TOTAL	**–**	**68**

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12 AMOUNTS DUE TO BANKS

	31/12/2016	31/12/2015
Current account	0	2
Cash collateral	1,698	1,686
Deposits	1,782	1,280
Private loans	50	0
TOTAL	**3,530**	**2,968**

13 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes debt securities and private interest-bearing securities specifically designated as measured at fair value with changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Debt securities	943	1,356
Private interest-bearing securities	247	432
TOTAL	**1,190**	**1,788**

The total redemption value of the debt securities and funds entrusted at year-end 2016 is EUR 962 million (2015: EUR 1,401 million). From 1 January 2016, financial liabilities will be measured at fair value through the income statement on the relevant funding curve including a mark up for 'own credit risk'. The total change in value (before tax) was EUR 32 million positive. Note 25 Result on financial transactions explains the changes in value recognised through the income statement.

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14 DERIVATIVES

This balance sheet item includes the negative fair value of derivatives. Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Derivatives not involved in a hedge accounting relationship	1,134	1,417
Derivatives involved in a portfolio hedge accounting relationship	20,519	18,902
Derivatives involved in a micro hedge accounting relationship	3,127	2,942
TOTAL	**24,780**	**23,261**

15 TAXES

The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, for the revaluation reserve for financial assets available-for-sale, own credit adjustment, hybrid capital and for the cash flow hedge reserve, which all directly change into equity.

	31/12/2016	31/12/2015
Current tax liability	31	16
Deferred tax liability	116	206
TOTAL	**147**	**222**

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BNG Bank and the Dutch tax authorities have concluded a bilateral agreement (vaststellingsovereenkomst) for the period 2013 – 2017. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached. The reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2016	2015
NOMINAL AND EFFECTIVE TAX RATE		
Profit before tax	503	314
Tax levied at the nominal tax rate	−126	−79
Tax adjustment from previous years	0	–
Participation exemption	0	0
Result on the sale of BNG Vermogensbeheer not subject to tax	1	–
Non-deductible costs (bank levy)	−9	−9
EFFECTIVE TAX	**−134**	**−88**
Nominal tax rate	25.0%	25.0%
Effective tax rate	26.6%	28.0%

				2016
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	–			–
Financial assets available-for-sale	−124	20		−104
Cash flow hedge reserve	−83	81		−2
Own Credit Adjustment	–	−8		−8
Hybrid capital	–	−3		−3
Employee benefits provision	1		0	1
TOTAL	**−206**	**90**	**0**	**−116**

				2015
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	1		−1	0
Financial assets available-for-sale	−101	−23		−124
Cash flow hedge reserve	−125	42		−83
Employee benefits provision	1			1
TOTAL	**−224**	**19**	**−1**	**−206**

16 DEBT SECURITIES

This includes bonds and other issued negotiable debt securities with either fixed or variable interest rates. Any unsold portion of an issue is deducted from the relevant bond loan.

	31/12/2016	31/12/2015
Bond loans	92,915	92,019
Commercial Paper	14,297	13,341
Private debt securities	4,968	4,763
TOTAL	**112,180**	**110,123**

17 FUNDS ENTRUSTED

	31/12/2016	31/12/2015
Current account	1,949	2,271
Cash collateral	78	75
Deposits	1,336	167
Private loans	4,194	4,356
TOTAL	**7,557**	**6,869**

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18 SUBORDINATED DEBTS

	31/12/2016	31/12/2015
Subordinated debts	31	31
TOTAL	**31**	**31**

19 OTHER LIABILITIES

	31/12/2016	31/12/2015
Employee benefits provision	3	2
Other liabilities	96	84
TOTAL	**99**	**86**

The employee benefits provision is made up of two parts, namely a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 2 million (2015: EUR 1 million) and a provision for vitality leave of EUR 1 million (2015: EUR 1 million). Both provisions have a long-term character.

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The movements in the present value of the net liability in relation to the defined benefits relating to the mortgage interest rate discount and the provision for vitality leave are as follows:

	2016	2015
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	3
Movements in the provision	1	−1
NET LIABILITY AS AT 31 DECEMBER	**3**	**2**

The other liabilities are mainly composed of amounts payable related to derivatives and lending to clients.

20 EQUITY

Since BNG has no minority interests after consolidation, the entire consolidated equity, excluding hybrid capital, can be attributed to the shareholders. The items included in equity are explained below.

	31/12/2016		31/12/2015	
Share capital		139		139
Share premium reserve		6		6
Revaluation reserve				
– Financial assets available-for-sale	251		320	
– Financial liabilities at fair value through the income statement (‘own credit risk’)	24		–	
		275		320
Cash flow hedge reserve		3		251
Other reserves		2,961		2,797
Unappropriated profit		369		226
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**3,753**		**3,739**
Hybrid capital		733		424
TOTAL		**4,486**		**4,163**

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	2016	2015
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.64	1.02
PROPOSED DIVIDEND		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	84	50
TOTAL	**91**	**57**

The proposed dividend distribution for 2016 takes into account the EUR 4 million dividend (after tax) already paid on the hybrid capital in 2016 charged to the Other reserves.

SHARE CAPITAL

The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. There are no issued shares that are not fully paid up. BNG Bank and its subsidiaries hold no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

SHARE PREMIUM RESERVE

There were no movements in 2016.

REVALUATION RESERVE

The revaluation reserve includes EUR 251 million in unrealised changes in value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. EUR 9 million of the Revaluation reserve was associated with equity instruments as at 31 December 2016. In 2015, this was EUR 22 million, of which EUR 20 million (after tax) comprised Assets held-for-sale arising from the interest in BNG Depositofonds.

The revaluation reserve also includes an Own Credit Adjustment. As of December 2016, financial liabilities will be recognised at fair value through the income statement on the relevant funding curve including a mark up for ‘own credit risk’. The total effect was EUR 24 million positive on equity net of deferred taxes, of which EUR 30 million positive is associated with the balance as at 1 January 2016 and EUR 6 million negative for 2016.

CASH FLOW HEDGE RESERVE

The effective portion of the unrealised changes in the value of derivatives, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The cash flow hedge reserve is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 37 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting.

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2016, a dividend of EUR 57 million (2015: EUR 32 million) was paid out to the bank’s shareholders for 2015, charged to the Other reserves. EUR 6 million (before tax) was distributed to the holders of the hybrid capital in 2016, charged to the Other reserves. As a result of the hybrid capital issued in 2016 and amortisation, the Other reserves still include a share premium and purchased interest of EUR 1 million in total (2015: EUR 1 million).

UNAPPROPRIATED PROFIT

The balance sheet is prepared prior to profit appropriation. This item represents the total result achieved after deduction of corporate income tax.

HYBRID CAPITAL

In 2016, BNG Bank issued private loans of EUR 309 million in hybrid capital. At year-end 2016, the bank's hybrid capital amounted to a total of EUR 733 million. This concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this payment for corporate income tax purposes has led to a public debate and the announcement of an enquiry by the European Commission into this subject in relation to potentially incompatible state aid. If the European Commission makes a negative recommendation, this could mean that BNG Bank will be required to repay the tax benefits and/or that future deductibility will no longer be permitted.

The instrument is structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. BNG Bank has the unilateral contractual option of repaying the perpetual capital instruments prematurely on the sixth coupon due date (in May 2021 and 2022) and subsequently every year on the coupon due date.

21 INTEREST INCOME

Interest income includes all positive interest results from both traditional financial instruments and derivatives, including negative interest expenses on financial liabilities. In addition, other credit-related income received is included in this item. Interest revenues on assets that were subject to impairment are recognised on the original effective interest percentage, as long as the expected interest cash flows are received.

	2016	2015
Financial assets at fair value through the income statement	66	70
Financial assets available-for-sale	304	353
Derivatives	3,210	3,129
Loans and advances	2,495	2,688
Negative interest expenses on financial liabilities	36	17
Other	15	21
TOTAL	**6,126**	**6,278**

The interest revenues in 2016 include EUR 4 million (2015: EUR 4 million) in interest revenues for financial assets, relating to Financial assets available-for-sale (note 5) and Loans and advances (note 6), which were subject to impairment.

22 INTEREST EXPENSES

Interest expenses includes all negative interest results from both traditional financial instruments and derivatives, including negative interest revenues on financial assets. The cost of borrowing as well as other interest-related charges are also recognised.

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	2016	2015
Financial liabilities at fair value through the income statement	49	72
Derivatives	3,220	3,297
Debt securities	2,238	2,343
Funds entrusted	111	84
Negative interest revenues on financial assets	91	24
Other	12	8
TOTAL	**5,721**	**5,828**

23 COMMISSION INCOME

This item includes income from services provided to third parties.

	2016	2015
Income from loans and credit facilities	19	17
Income from payment services	9	10
Income from fiduciary activities	–	5
TOTAL	**28**	**32**

The removal in 2016 of commission income from fiduciary activities is due to the sale of BNG Vermogensbeheer.

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24 COMMISSION EXPENSES

This item comprises expenses totalling EUR 4 million (2015: EUR 4 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 RESULT ON FINANCIAL TRANSACTIONS

This item includes the result on financial transactions broken down into realised and unrealised market value adjustments.

		2016		2015
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:				
– Interest-bearing securities	45		–85	
– Structured loans	2		–8	
		47		–93
RESULT ON HEDGE ACCOUNTING				
– Portfolio fair value hedge accounting	18		16	
– Micro fair value hedge accounting	3		8	
– Micro cash flow hedge accounting	26		–1	
		47		23
Change in counterparty credit risk of derivatives (CVA/DVA)		–21		9
Realised sales and buy-out results		62		57
Other market value changes		–17		20
TOTAL		**118**		**16**

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In 2016, the result on financial transactions was positively affected by unrealised results, mainly arising from the reduced credit and liquidity risk spreads of interest-bearing securities recorded under Financial assets at fair value through the income statement, Realised sales and buy-out results and Result on hedge accounting.

The result on financial transactions was negatively affected by the rise in counterparty credit risk for derivatives and other market value adjustments. The Other market value adjustments item also includes the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

26 RESULTS FROM ASSOCIATES AND JOINT VENTURES

	2016	2015
Associates	3	1
Joint ventures	1	1
TOTAL	**4**	**2**

For a description of the bank's associates and joint ventures, please refer to the Other notes to the consolidated financial statements.

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27 RESULT FROM SALE OF ASSETS HELD-FOR-SALE

The sale of the shares of BNG Vermogensbeheer and the bank's interest in the BNG Depositofonds was effected at the end of May 2016. The sale of the shares of BNG Vermogensbeheer and the sale of participating interests in BNG Depositofonds resulted in a realised gain of EUR 34 million. The result on sales relates primarily to the release from the revaluation reserve of the difference between the fair value and the cost price of the participating interests.

28 OTHER RESULTS

The other results consist mainly of income from consultancy services provided by BNG Gebiedsontwikkeling.

	2016	2015
Income from consultancy services	3	3
TOTAL	**3**	**3**

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29 STAFF COSTS

	2016	2015
Wages and salaries	25	26
Pension costs	3	4
Social security costs	2	2
Additions to the employee benefits provision	0	0
Other staff costs	8	6
TOTAL	**38**	**38**

The variable remuneration of individual staff members in 2016 amounted to a maximum of 20% of their fixed salary (2015: 20%).

30 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2016 amounted to EUR 26 million (2015: EUR 27 million).

31 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 9). In total, the depreciation charges amounted to EUR 2 million in 2016 (2015: EUR 2 million).

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32 IMPAIRMENTS

The impairments in 2016 amounted to EUR 32 million negative (2015: EUR 72 million). The impairments in 2016 were largely caused by the reversal of impairment on the HETA bond, which had already previously been written down. Impairments were also made for negative developments in individual loans and advances, in a number of participating interests of BNG Gebiedsontwikkeling (joint ventures) and in the minority interest in Transdev-BNG-Connexxion Holding (TBCH).

	2016	2015
Addition to the incurred loss provision	4	7
Release from the incurred loss provision	−8	−6
Impairment of financial assets available-for-sale	4	63
Reversal of impairment of financial assets available-for-sale	−39	–
Impairment of associates and joint ventures	8	8
Reversal of impairment of associates and joint ventures	−1	–
TOTAL	**−32**	**72**

The changes in the incurred loss provision are included in the Loans and advances item (note 6).

Based on expected future developments, the investment in TBCH was written down by more than EUR 4 million to nil in the Financial assets available-for-sale item in 2016.

In the fourth quarter of 2016, BNG Bank accepted the proposal for a buy-off of the claims against HETA with a guarantee from the federal state of Carinthia for a rate of around 90% of the principal amount. This rate was considerably higher than the rate at the end of March 2015 (58%), on which the impairment of EUR 63 million in the first half of 2015 was based. The settlement led to a reversal of the impairment of more than EUR 39 million which was credited to the income statement.

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Lastly, impairments on four BNG Gebiedsontwikkeling participations were impaired for a total amount of EUR 8 million (2015: EUR 8 million) and impairments on two participations were reversed for a total of EUR 1 million (2015: zero).

33 CONTRIBUTION TO RESOLUTION FUND AND BANK LEVY

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 16 million payable for 2016 (2015: 9 million) was paid as a lump sum in December and was charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy on 1 October of every year, which for 2016 amounts to EUR 35 million (2015: EUR 37 million). Based on the same methodology and assumptions, the bank levy owed for 2017 is expected to be EUR 36 million.

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	2016	2015
THE BANK LEVY IS CALCULATED AS FOLLOWS:	**BASIS 2015**	**BASIS 2014**
Balance sheet total	149,511	153,505
Less: Tier 1 capital	3,581	2,864
Less: Deposits covered by the deposit-guarantee scheme	47	44
TAXABLE BASE	**145,883**	**150,597**
Less: Efficiency exemption	20,000	20,000
TAXABLE AMOUNT	**125,883**	**130,597**
Total sum of debts with a maturity of less than one year, according to note 35	40,267	42,733
Total sum of all debts, according to the balance sheet	145,348	149,923
Bank levy on short-term debt (0.044% of taxable amount)	15	16
Bank levy on long-term debt (0.022% of taxable amount)	20	21
TOTAL CALCULATED/DUE	**35**	**37**
Additional tax assessment	–	0
TOTAL IN THE INCOME STATEMENT	**35**	**37**

34 FEES OF INDEPENDENT AUDITORS

The fees paid to independent auditors are included in Other administrative expenses. In conformity with Section 382a of Part 9, Book 2 of the Dutch Civil Code, a breakdown of the fees paid to the independent auditors for audits and audit-related and non-audit-related services is given in note 34 to the company financial statements.

35 BREAKDOWN OF BALANCE SHEET VALUE BY REMAINING CONTRACTUAL MATURITY

						31/12/2016
	DUE ON DEMAND	UP TO 3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
– Cash and balances held with central banks	6,417					6,417
– Amounts due from banks	4	11,660	30	97	4	11,795
– Financial assets at fair value through the income statement		80	60	384	1,826	2,350
– Derivatives		1,429	2,194	7,834	3,955	15,412
– Financial assets available-for-sale		231	873	6,273	8,060	15,437
– Loans and advances	1,418	6,313	8,875	33,599	37,371	87,576
– Value adjustments on loans in portfolio hedge accounting		555	1,392	5,805	7,142	14,894
– Other assets		56				56
TOTAL ASSETS	**7,839**	**20,324**	**13,424**	**53,992**	**58,358**	**153,937**

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Continuation of previous page						31/12/2016
	DUE ON DEMAND	UP TO 3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
– Amounts due to banks	0	3,480	2	10	38	3,530
– Financial liabilities at fair value through the income statement		3	127	332	728	1,190
– Derivatives		441	1,466	7,270	15,603	24,780
– Current tax liability		31				31
– Deferred tax liability					116	116
– Debt securities		14,833	15,831	50,094	31,422	112,180
– Funds entrusted	1,949	1,423	432	2,567	1,186	7,557
– Subordinated debts		1	1	3	26	31
– Other liabilities		96			3	99
TOTAL LIABILITIES	**1,949**	**20,308**	**17,859**	**60,276**	**49,122**	**149,514**

	31/12/2015					
	DUE ON DEMAND	UP TO 3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
– Cash and balances held with central banks	3,175					3,175
– Amounts due from banks	3	10,089	203	241	4	10,540
– Financial assets at fair value through the income statement		33	68	440	2,343	2,884
– Derivatives		974	2,662	7,948	4,786	16,370
– Financial assets available-for-sale		171	636	5,058	7,594	13,459
– Loans and advances	1,373	5,953	10,523	34,130	37,387	89,366
– Value adjustments on loans in portfolio hedge accounting		447	1,446	5,230	6,436	13,559
– Other assets		27				27
TOTAL ASSETS	**4,551**	**17,694**	**15,538**	**53,047**	**58,550**	**149,380**

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						31/12/2015
	DUE ON DEMAND	UP TO 3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
– Amounts due to banks	2	2,966				2,968
– Financial liabilities at fair value through the income statement		11	105	401	1,271	1,788
– Derivatives		348	1,161	7,398	14,354	23,261
– Current tax liability			16			16
– Deferred tax liability					206	206
– Debt securities		11,062	21,678	49,626	27,757	110,123
– Funds entrusted	2,271	310	251	1,706	2,331	6,869
– Subordinated debts		1	1	4	25	31
– Other liabilities		84			2	86
TOTAL LIABILITIES	**2,273**	**14,782**	**23,212**	**59,135**	**45,946**	**145,348**

36 BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

					31/12/2016
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
– Cash and balances held with central banks	6,417				6,417
– Amounts due from banks	11,795				11,795
– Financial assets at fair value through the income statement		2,350			2,350
– Derivatives			15,412		15,412
– Financial assets available-for-sale				15,437	15,437
– Loans and advances	87,576				87,576
– Value adjustments on loans in portfolio hedge accounting	14,894				14,894
TOTAL ASSETS	**120,682**	**2,350**	**15,412**	**15,437**	**153,881**

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	31/12/2016				
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
– Amounts due to banks	3,530				3,530
– Financial liabilities at fair value through the income statement		1,190			1,190
– Derivatives			24,780		24,780
– Debt securities	112,180				112,180
– Funds entrusted	7,557				7,557
– Subordinated debts	31				31
TOTAL LIABILITIES	**123,298**	**1,190**	**24,780**	**–**	**149,268**

					31/12/2015
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
– Cash and balances held with central banks	3,175				3,175
– Amounts due from banks	10,540				10,540
– Financial assets at fair value through the income statement		2,884			2,884
– Derivatives			16,370		16,370
– Financial assets available-for-sale				13,459	13,459
– Loans and advances	89,366				89,366
– Value adjustments on loans in portfolio hedge accounting	13,559				13,559
TOTAL ASSETS	**116,640**	**2,884**	**16,370**	**13,459**	**149,353**

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	31/12/2015				
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
– Amounts due to banks	2,968				2,968
– Financial liabilities at fair value through the income statement		1,788			1,788
– Derivatives			23,261		23,261
– Debt securities	110,123				110,123
– Funds entrusted	6,869				6,869
– Subordinated debts	31				31
TOTAL LIABILITIES	**119,991**	**1,788**	**23,261**	**–**	**145,040**

37 RECLASSIFICATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

On 15 October 2008, the EU adopted several amendments to IAS 39 and IFRS 7, which allow an entity to reclassify financial instruments in certain circumstances, such as illiquid markets. BNG Bank used this option in 2008 to reclassify part of the instruments in the Financial assets available-for-sale item and transfer them to Amounts due from banks and Loans and advances. The intention is to retain these assets for the foreseeable future. When the marketability of this portfolio (or parts of it) is restored, the possibility of a partial sale is not ruled out. The reclassification does not affect the realised results.

At the time of reclassification in 2008, the bank anticipated that all future cash flows would be received. The calculation of the effective interest rate is based on the original cash flows. The effective interest rates of these reclassified assets have a weighted average of 5.1% and range from 2.8% to 6.3%. The unrealised changes in value in the revaluation reserve are presented after tax.

			31/12/2016
BALANCE SHEET VALUE AS AT 31/12/2016	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	15,437	16,881	−1,444
Amounts due from banks	11,795	11,555	240
Loans and advances	87,576	86,381	1,195
Equity	4,457	4,466	−9
– of which revaluation reserve	275	284	−9

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BALANCE SHEET VALUE AS AT 31/12/2015	31/12/2015 WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	13,459	15,386	−1,927
Amounts due from banks	10,540	10,155	385
Loans and advances	89,366	87,791	1,575
Equity	4,163	4,130	33
– of which revaluation reserve	320	287	33

RECLASSIFIED ASSETS	31/12/2016		31/12/2015	
	WITH RECLASSI-FICATION	WITHOUT RECLASSI-FICATION	WITH RECLASSI-FICATION	WITHOUT RECLASSI-FICATION
Balance sheet value	1,435	1,444	1,960	1,927
Fair value	1,444	1,444	1,927	1,927
Total unrealised market value changes in equity	−83	−74	−77	−110

REALISED AND UNREALISED RESULTS FROM RECLASSIFIED TRANSACTIONS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	TOTAL
– Movement in unrealised market value changes in equity with reclassification	−6	22	15	20	24	24	27	25	−201	−50
– Movement in unrealised market value changes in equity without reclassification	36	−7	199	40	106	−86	−9	153	−473	−41
– Interest income	30	38	42	45	62	88	82	120	276	783
– Results realised on sales	1	0	–	0	0	–	−4	−3	–	−6
TOTAL RESULTS REALISED IN THE INCOME STATEMENT	**31**	**38**	**42**	**45**	**62**	**88**	**78**	**117**	**276**	**777**

Risk section

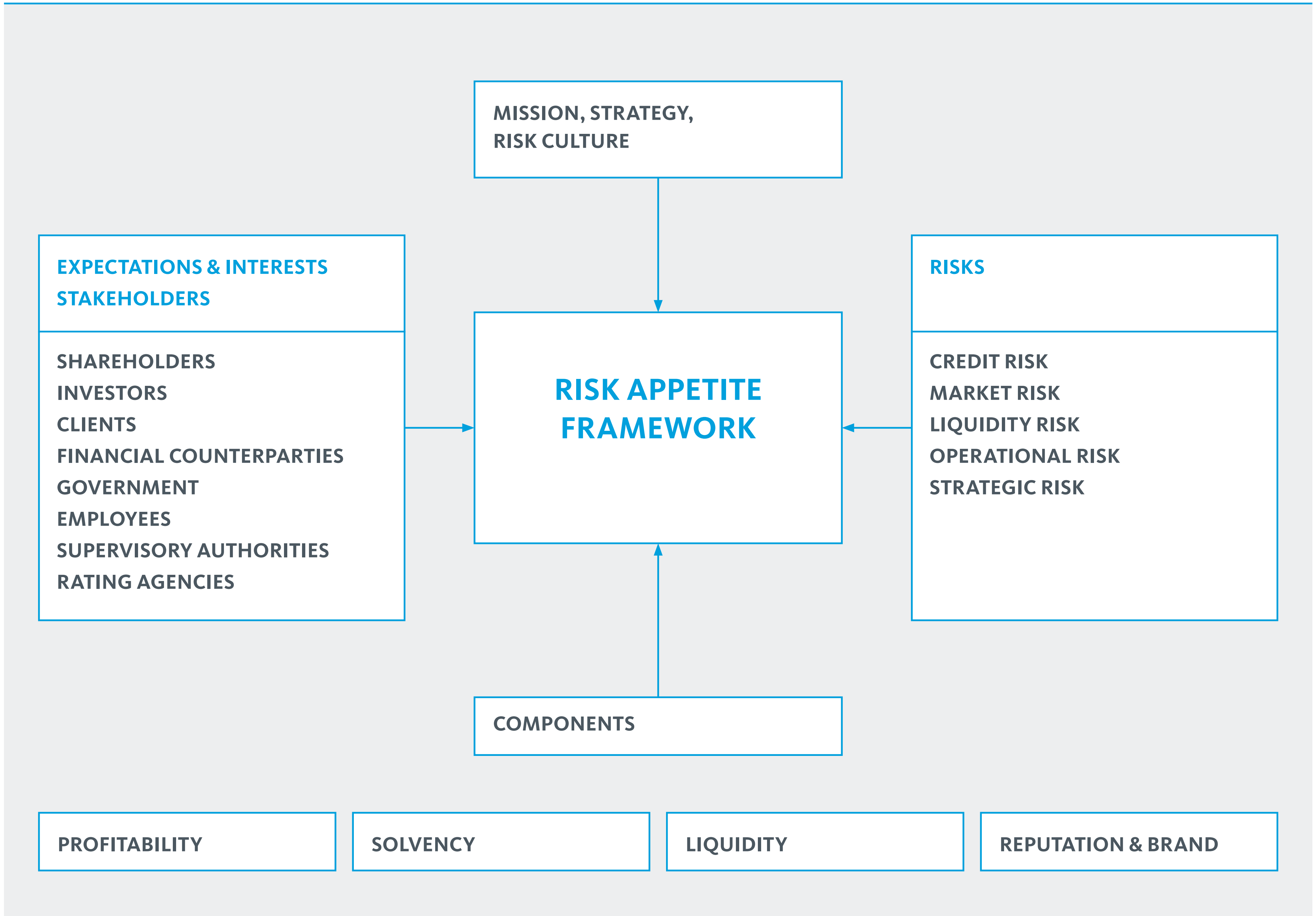
General

The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct lending operations, a bank will have to accept a certain amount of credit, market, liquidity and operational risk. On top of this, there is strategic risk.

BNG Bank only has a banking book and does not have a trading book. BNG Bank’s risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. For this reason, BNG Bank employs a strict capitalisation policy with lower limits for the leverage ratio and the Tier 1 ratio. In combination with the restriction on services as laid down in its Articles of Association, these limits determine the scope and sphere of activity of the bank.

RISK APPETITE STATEMENT

The bank has prepared a Risk Appetite Statement (RAS) describing its risk appetite, which sets out the types and degree of risk the bank is prepared to accept in order to achieve its strategic objectives and implement its business plan. The risk appetite falls within the risk capacity, which is the maximum risk level that the bank can take on without exceeding regulatory capital, liquidity and operating environment limits and at which it is still able to meet its obligations towards its clients, investors, shareholders and other stakeholders. The operating environment includes such aspects as the technical infrastructure, risk management capacities and expertise.


MISSION, STRATEGY,
RISK CULTURE
EXPECTATIONS & INTERESTS
STAKEHOLDERS
SHAREHOLDERS
INVESTORS
CLIENTS
FINANCIAL COUNTERPARTIES
GOVERNMENT
EMPLOYEES
SUPERVISORY AUTHORITIES
RATING AGENCIES
RISK APPETITE
FRAMEWORK
RISKS
CREDIT RISK
MARKET RISK
LIQUIDITY RISK
OPERATIONAL RISK
STRATEGIC RISK
COMPONENTS
PROFITABILITY
SOLVENCY
LIQUIDITY
REPUTATION & BRAND

The risk appetite is evaluated annually and adjusted where necessary in order to ensure that it remains in line with BNG Bank's strategic objectives:
- substantial market shares in the Dutch public sector and semi-public domain;
- generate a reasonable return for its shareholders.

And satisfies the conditions identified in this context:
- an excellent credit rating and adequate risk management;
- a competitive funding position;
- effective and efficient operations.

In translating these strategic objectives and conditions into the risk appetite, the bank identifies the interests and expectations of all its stakeholders. This subsequently results in the formulation of objectives with regard to profitability, solvency, liquidity and reputation & brand in the form of the RAS.

The RAS is laid down by both the Executive Board and the Supervisory Board. For 2016, the risk appetite for the four components is reflected in the following objectives:

PROFITABILITY

Rather than striving to maximise its profit, BNG Bank seeks to keep its lending rates for the public sector as low as possible. The bank also seeks to generate a reasonable return for its shareholders. Relative stability of the annual results is also important for various stakeholders, such as regulators and rating agencies.

SOLVENCY

BNG Bank remains eager to stand out in the financial markets in terms of the volume and quality of its capital. This is reflected in the desired rating profile: a rating equal to that of the Dutch State. To this end, BNG Bank's risk-weighted capital ratios must be significantly above the criteria imposed by the regulators and significantly above those of (the majority of) the other banks.

LIQUIDITY

Based on its function for the public sector, BNG Bank wants to provide a constant and stable presence in the market and continue meeting the demand for credit, even in difficult times. In addition, it pursues a prudent liquidity position, based on strict internal criteria and the underlying principle that it should always be able to fulfil its short-term obligations. In this context, ongoing access to funding is essential, and with it the ongoing maintenance of an attractive, varied and sufficiently large issue programme for investors. The long-term refinancing risk must be adequately limited.

REPUTATION & BRAND

BNG Bank wants to maintain the perception among stakeholders of the bank as a quasi-government institution with an excellent credit rating and a first-class reputation and integrity profile. BNG Bank wants to maintain its profile as a sectoral bank with a high level of expertise. BNG Bank offers tailor-made services at competitive rates. The bank scores highly for customer satisfaction, maintains the status of 'promotional bank' and complies with supervision requirements.

RISKS ACCEPTED BY BNG BANK

BNG Bank aims to provide its stakeholders with the best possible service, now and in the future. In order to achieve its goals, the bank has identified the types of risks it is prepared to accept. The required rate of return imposed by BNG Bank's primary shareholder takes the bank's risk profile into account. This means that the required rate of return does not cause the bank to take on risks that could endanger its ratings and funding position, preventing it from fulfilling its mission in the long term. The bank seeks to generate a return that exceeds this external required rate of return under certain conditions.

A reasonable return for shareholders and low rates for clients are key issues. BNG Bank is prepared to accept the controlled risks necessary to provide loans to its clients. The bank is also prepared to accept certain additional risks relating to activities that support lending to clients. Achieving additional return (based on risk/return considerations) enables the bank to offer its clients lower prices now and in the future. Once again, this cannot be at the expense of the bank's external ratings and excellent funding position, as that would place its mission at risk.

The public sector distinguishes between solvency-free lending (via guarantees or otherwise) and lending subject to solvency requirements. Demand is greatest for solvency-free lending. In order to offer this solvency-free lending at attractive rates, the bank must maintain its competitive funding position. This position is dependent on high ratings, limiting the bank's ability to provide loans subject to solvency requirements due to the associated credit risks.

As a result of the foregoing, the bank is prepared to accept the following risks.

CREDIT RISK

- A certain degree of counterparty risk from client lending subject to solvency requirements. On the one hand, these parties belong to the public sector and therefore form part of the bank's mission. On the other hand, the return from lending subject to solvency requirements can contribute towards competitive rates for solvency-free lending;
- Risk on financial counterparties relating to activities that support lending to clients (including hedging market risks with derivatives);

- As part of its business model, the bank accepts a concentration risk in relation to the Dutch public sector. A considerable portion of the bank's exposure in this context is indirectly related to public sector real estate. This risk is generally mitigated by the Social Housing and Healthcare guarantee funds, resulting on balance in a risk in relation to the Dutch State;
- Risk relating to investments that support lending to clients;
- Counterparty risk from client lending subject to solvency requirements and investments are only accepted in a proportion that is appropriate to a promotional bank and that does not endanger the bank's mission.

MARKET RISK

- Foreign exchange risk: BNG Bank is not prepared to be exposed to foreign exchange risk as a result of a position in foreign exchange. Foreign exchange risks are consistently hedged.
- Interest-rate risk: BNG Bank hedges interest-rate risks arising from lending, however the bank is prepared to take on to a certain degree of interest-rate risk. Firstly because a maturity mismatch – relating to equity – is a standard source of revenue for banks (with lending maturity exceeding funding maturity), and secondly BNG Bank believes that an active interest rate position policy can lead to additional return. With regard to basis risk (tenor), the bank accepts a limited position arising from regular funding and lending.
- Volatility risk: option positions are hedged, except where they support the bank's active interest rate position policy.
- It should be noted that BNG Bank accepts no market risk from trading portfolios and has no trading book.

LIQUIDITY RISK

- Short term: as BNG Bank aims to always fulfil its payment obligations, short-term liquidity risks are only acceptable where counterbalanced by sufficient buffers to ensure compliance with these short-term obligations. The liquidity requirements also relate to activities other than lending to clients, such as the investments mentioned above under Credit risk.

- Long term (refinancing risk): the public sector consists largely of institutions with a long-term investment horizon. This means that assets have long-term maturity periods, in some cases up to decades. On average, BNG Bank attracts less long-term funding and accepts a funding mismatch, provided there are sufficient buffers to ensure a strong likelihood of refinancing at acceptable costs even in times of stress. The bank is also prepared to accept the refinancing risk resulting from liquidity requirements in relation to activities other than lending to its clients, such as investments.

OPERATIONAL RISK

- Operational risk is an inherent part of running a business.
- BNG Bank accepts that providing tailored services involves additional inherent operational risks compared to standard products.
- Operational risks are mitigated based on a cost-benefit analysis, except in the case of compliance with laws, regulations and integrity, where risks must be minimised.
- Alongside credit facilities, BNG Bank also offers its clients other products, such as current accounts and payment services. It can be argued that payment services do not substantially contribute towards maintaining low public sector funding costs. Clients are largely offered a broader range of services, however, which helps to secure customer loyalty. BNG Bank is therefore prepared to accept operational risks for these additional products, provided this does not jeopardise its mission.

STRATEGIC RISK

- It is difficult to determine the extent to which strategic risks are accepted, as they are often driven by external factors and are therefore harder to influence. The main issue here is how BNG Bank responds to its environment and what risks this involves.
- Business climate: the bank needs to remain relevant and must therefore respond to social and political developments. The bank responds by repositioning itself as a partner serving the public sector by means of new initiatives.
- Dependency risk: BNG Bank is highly dependent on political decisions in the Netherlands. The influence of these stakeholders can be in conflict with the bank’s interests.

- Reputation risk: BNG Bank promotes its desire to be a reliable and sustainable bank. One example of reputation risk is the development of a perception among stakeholders that the bank is failing to live up to this publicly declared commitment.

The RAS has been translated into a system of limits, targets and reference figures that is updated at least every year based on changes in the RAS. The principal indicators are capital and liquidity ratios, liquidity limits, external ratings, customer satisfaction, turnover figures, return on equity and changes in the development of results. Where appropriate, a policy adjustment is made in order to keep practical application aligned with the risk appetite. A monitoring programme is conducted each quarter to determine whether the bank is still within the limits of its risk appetite. In this way, the risk appetite is embedded in the organisation while its practical applicability is increased. The various departments indicate in their 'in control statements' and annual plans how they will ensure compliance with the risk appetite from their respective areas of responsibility.

Risk management uses a set of reports aimed at both internal risk management and accountability for that risk management towards external stakeholders. It should be noted that financial risks are more effectively monitored than less tangible matters such as the ability to continue complying with new regulations in the future. In addition, the bank ensures that it meets the increasingly strict reporting requirements on aspects such as capital and liquidity.

In 2016, the bank remained within its own risk appetite for market risk, credit risk and liquidity risk. With regard to capital, the internal target for the growth track towards the expected value for the leverage ratio, which needs to be achieved by the start of 2018, was under pressure for some time. The bank returned within the limits of its risk appetite by issuing additional capital. With regard to operational risk, the bank remained well within the internal norms for operational incidents. The tools available for monitoring operational risk need to be improved in a broader sense. This will be addressed in 2017. Monitoring strategic risk is also difficult in practice. The bank is examining practical solutions to this problem.

Risk management structure

Supplementary to its Risk Appetite Statement (RAS), BNG Bank applies a Risk Appetite Framework (RAF) which helps it work out and monitor the system of limits, targets and reference figures. This framework defines various risk types, sets out the responsibilities and identifies the various policy documents that describe the acceptance and management of these risks.

RISK APPETITE FRAMEWORK

DEFINITIONS OF RISK

STRESS TESTING POLICY

RISK APPETITE STATEMENT

CREDIT RISK	MARKET RISK	OPERATIONAL RISK	STRATEGIC RISK	LIQUIDITY RISK
CREDIT RISK POLICY PUBLIC FINANCE FUNDING & TREASURY	MARKET RISK & ALM POLICY	OPERATIONAL RISK POLICY	CAPITAL MANAGEMENT PLAN	LIQUIDITY & FUNDING RISK POLICY

ICAAP

ILAAP

RECOVERY PLAN

DISCLOSURE POLICY

This framework also includes the Capital Management Policy, which originates in the ICAAP (Internal Capital Adequacy Assessment Process), the process that the bank uses to assess and control its own capital. This is an overarching policy covering various risk types that require a capital reserve. Liquidity risk is covered by the ILAAP (Internal Liquidity Adequacy Assessment Process). This is the process by which an institution assesses and controls its own liquidity.

The bank has two special committees made up of Executive Board members and the responsible managing directors. Each committee focuses on a specific risk area. The Asset & Liability Committee focuses on market and liquidity risk. The policies on credit risk and operational risk are dealt with by the Management Board. In both committees, the members of the Executive Board have voting power. In addition to the above, the bank addresses strategic risks in the regular Executive Board meetings. The Executive Board periodically discusses the structure and performance of the bank's internal risk management and control systems with the Supervisory Board and the Audit & Risk Committee, which will be divided into an Audit Committee and a Risk Committee with effect from 1 January 2017.

The Management Board takes decisions that influence capital allocation and approves the ICAAP and ILAAP. The Management Board is also responsible for stress testing. This involves an assessment of the consequences of stress situations for various types of risk – both separate risks and specific combinations of risks based on economic scenarios. The manner in which this assessment is performed is described in the Stress Testing Policy.

Recommendations on capital policy and the allocation of capital to the bank's various business units are prepared by the Capital Policy and Financial Regulations Committee. In addition, the committee offers advice on the introduction of new regulations concerning solvency and liquidity and on technical financial issues.

Decisions regarding the actual acceptance of credit risks in the form of individual credits or other exposures are made by three independently operating committees, whose decisions are based on current policy: the Credit Committee, the Financial Counterparts Committee and the Investment Committee. All committees are chaired by a member of the Executive Board.

The following departments support the Executive Board and the committees in implementing risk policy:
- The Risk Management department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of credit risk, market risk, liquidity risk, operational risk and other risks. The department has a supporting role as regards strategic risk. The department manages the risk policy documents and the RAF.
- The Credit Risk Assessment department draws up policy proposals with respect to credit risk, while as part of the lending process it also provides independent assessments and advice on risks relating to credit and review proposals for clients and financial counterparties. The Credit Risk Assessment department is represented in the bank's Credit Committee, the Financial Counterparties Committee and the Investment Committee. This department is also responsible for the bank's Special Management activities – namely the supervision, management and processing of problematic financing arrangements.
- The Internal Audit Department (IAD) periodically conducts operational audits in order to evaluate the structure and performance of the bank's risk management systems and assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank and reports to the Executive Board.

Where necessary, the Legal Affairs, Tax and Compliance department (JFC) is engaged in connection with conduct-related issues. An independent Compliance Officer monitors compliance with all relevant laws and regulations. The duties, position and authorities of this compliance function are laid down in the BNG Bank Compliance Regulations.

A new Capital Management department was set up in 2016, which reports directly to the Executive Board. The introduction of this department will ensure a more structural focus on capital policy and better safeguarding of proactive capital management, including anticipating legislative changes.

Credit risk

DEFINITIONS

Credit risk is defined as the chance of losses in the event a counterparty is unable to meet its financial and/or other obligations, and includes concentration risk, settlement risk and counterparty risk.

- concentration risk: the extent to which a bank's exposure is spread over the number and variety of countries, sectors, and parties;
- counterparty risk: the chance of losses if a party defaults on payments resulting from a financial transaction at the moment the payments are due;
- settlement risk: the chance of losses if a party fails to meet the terms and conditions of a contract (or group of contracts) with the other party on the specified settlement date.

BNG Bank has an internal risk management organisation that serves to control its credit risks. This organisation is geared to the diversity and complexity of the bank's lending activities and is structured as follows:

- The Executive Board determines the relevant lending parameters.
- The Credit Committee decides on all loans and advances subject to solvency requirements. In some cases, this authority is delegated.
- The Financial Counterparties Committee decides on limits for transactions with financial institutions.
- The Investment Committee decides on proposals for investment in interest-bearing securities.
- The Client Acceptance Committee assesses whether potential clients are suitable under the bank's Articles of Association, whether they fit in the bank's commercial policy and whether they constitute an integrity risk.

The Credit Risk Assessment department and (at portfolio level) the Risk Management department are responsible for assessing, quantifying and reporting the credit risk. In the organisation, these departments operate independently from the Public Finance and Treasury directorates, which are responsible for accepting the credit risks.

TOTAL CREDIT RISK EXPOSURE

The tables below provide insight into the total gross credit risk exposure value, broken down into types of exposure. The total gross exposure value consists of the total balance sheet value of the assets, increased by the off-balance sheet commitments. For the derivatives positions, the positive balance sheet value is replaced by the total value in credit equivalents for derivatives in order to determine the risk value.

	31/12/2016					
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST-BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
– Cash and balances held with central banks	6,417					6,417
– Amounts due from banks	11,795		240			11,555
– Financial assets at fair value through the income statement	2,350	904	1,446			
– Derivatives	15,412			15,412		
– Financial assets available-for-sale	15,437		15,412		25	
– Loans and advances	87,576	86,151	1,467			−42
– Value adjustments on loans in portfolio hedge accounting	14,894					14,894
– Assets held-for-sale	0					
– Non-financial assets	119					119
TOTAL BALANCE SHEET VALUE	**154,000**	**87,055**	**18,565**	**15,412**	**25**	**32,943**

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Continuation of previous page						31/12/2016
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST-BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
– Contingent liabilities	105	105				
– Irrevocable facilities	6,903	6,903				
– Revocable facilities	6,998	6,998				
TOTAL OFF-BALANCE SHEET EXPOSURE	**14,006**	**14,006**	**–**	**–**	**–**	**–**
– Less: Balance sheet value of derivatives (assets)	−15,412			−15,412		
– Credit equivalents for derivatives	4,781			4,781		
TOTAL GROSS EXPOSURE VALUE AFTER PROVISIONS	**157,375**	**101,061**	**18,565**	**4,781**	**25**	**32,943**

	31/12/2015					
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST-BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
– Cash and balances held with central banks	3,175					3,175
– Amounts due from banks	10,540		485			10,055
– Financial assets at fair value through the income statement	2,884	885	1,999			
– Derivatives	16,370			16,370		
– Financial assets available-for-sale	13,459		13,435		24	
– Loans and advances	89,366	87,531	1,884			−49
– Value adjustments on loans in portfolio hedge accounting	13,559					13,559
– Assets held-for-sale	68				68	
– Non-financial assets	90					90
TOTAL BALANCE SHEET VALUE	**149,511**	**88,416**	**17,803**	**16,370**	**92**	**26,830**

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	31/12/2015					
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST-BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
– Contingent liabilities	99	99				
– Irrevocable facilities	6,415	6,415				
– Revocable facilities	6,694	6,694				
TOTAL OFF-BALANCE SHEET EXPOSUREE	**13,208**	**13,208**	**–**	**–**	**–**	**–**
– Less: Balance sheet value of derivatives (assets)	−16,370			−16,370		
– Credit equivalents for derivatives	3,765			3,765		
TOTAL GROSS EXPOSURE VALUE AFTER PROVISIONS	**150,114**	**101,624**	**17,803**	**3,765**	**92**	**26,830**

As at 31 December 2016, the balance sheet value of the loans granted to or guaranteed by public authorities, the WSW Housing guarantee fund and the WfZ Healthcare guarantee fund in the Loans and advances balance sheet item totalled EUR 79.3 billion (2015: EUR 80.2 billion). The contingent liabilities and the irrevocable facilities are explained in the section entitled Other notes to the consolidated financial statements. That section also indicates which parts of the financial assets are not freely disposable.

The calculation of the market value of financial assets and financial liabilities at fair value through the income statement includes a credit and liquidity risk spread. Changes in value due to credit-risk and liquidity-risk fluctuations are derived from changes in these spreads. The risk profiles of individual customers and financial instruments are periodically assessed. If necessary, the credit-risk spread is adjusted for the purpose of valuation.

Cumulative changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 356 million negative (2015: EUR 450 million negative) and amounted to EUR 47 million positive over 2016 (2015: EUR 84 million negative). Cumulative changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 32 million positive (2015: zero) and amounted to EUR 32 million positive for 2016 (2015: zero). As of 1 January 2016, financial liabilities at fair value through the income statement are recognised on the relevant funding curve including a mark-up for 'own credit risk' in the accounts. Prior to 2016, the credit and liquidity risk spread was consistently set at zero for the purpose of valuation.

CONCENTRATION RISK

In the context of concentration risk, the bank differentiates between:

- country risk with a distinction between domestic and foreign risk;
- sector risk;
- risk for individual parties with a distinction between market parties according to the Articles of Association (hereinafter referred to as statutory market parties) and financial counterparties.

Concentration risk is monitored by the departments that conclude transactions as well as independently by the Risk Management department. Reports are submitted to the various committees and to the Management Board as the overarching authority. All policy decisions are taken by the Management Board, often based on a recommendation by one of the committees.

Alongside the risk concentration for solvency-free lending to the Dutch and other European governments, risk concentrations also occur in the market segments with exposures subject to solvency requirements. Almost all exposures to public authorities subject to solvency requirements have been guaranteed by counterparties in the form of collaterals and securities. The other exposures subject to solvency requirements relate to financial institutions. The exposures subject to solvency requirements include five counterparties (2015: three), whose exposures represent more than 10% of the Tier 1 capital.

DOMESTIC COUNTRY RISK

A considerable degree of concentration risk to the Netherlands is inherent to BNG Bank's mission: financing the Dutch public sector. A considerable portion of the exposure is indirectly related to public sector property. However, these risks are generally mitigated by government guarantees on credit lending and by the WSW (Social Housing) and WfZ (Healthcare) guarantee funds. These guarantees result in a concentration risk in relation to public authorities and guarantee funds. The guarantee funds are guaranteed by the government via backstop constructions. What results on balance is therefore a risk in relation to the Dutch State. The concentration of this risk is high, but inextricably linked to BNG Bank's business model and to its place in the Dutch social system.

FOREIGN COUNTRY RISK

The bank is exposed to foreign country risk as a result of transactions with financial counterparties to hedge the market risks arising from lending activities, as a result of its liquidity portfolio and, to a limited extent, in the context of lending and investments in the public sector abroad. The bank consciously purchases foreign securities for its liquidity portfolio because the majority of its loan portfolio relates to the Netherlands. Foreign credit lending is in most cases directly or indirectly guaranteed by the relevant governments.

All foreign exposures fall within set limits for each country. These limits mainly depend on the credit quality of the country in question. Moreover, a general limit applies to all foreign exposures combined, of 15% of the balance sheet total.

Since the creditworthiness of certain countries in the Eurozone has deteriorated, the bank has gradually reduced its positions in these countries. This is mainly done by allowing existing exposures to expire. At the end of 2016, the bank's foreign exposure (expressed in balance sheet value) totalled EUR 23.8 billion (2015: EUR 21.7 billion), of which EUR 13.1 billion consisted of long-term exposures (2015: EUR 13.4 billion). This represents 8.5% of the balance sheet total (2015: 9.0%).

LONG-TERM FOREIGN EXPOSURE

The following tables provide an overview of long-term foreign exposures. Derivative transactions and short-term transactions (including cash collateral with banks in particular) have not been included. The amounts shown are remaining principal amounts in millions of euros.

							31/12/2016
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational institutions	629	520				1,149	1,217
Multilateral development banks	758					758	864
Belgium	35	604		114		753	952
Denmark	50					50	51
Germany	1,313	70				1,383	1,867
Finland		690				690	834
France	357	1,040	100		47	1,544	1,922
United Kingdom	365	340	361	181	75	1,322	1,945
Italy		24	137	152	61	374	468
Austria		605				605	777
Portugal			85	37	205	327	309
Spain		347	385	661	138	1,531	1,590
Switzerland	98		127			225	266
TOTAL	**3,605**	**4,240**	**1,195**	**1,145**	**526**	**10,711**	**13,062**

							31/12/2015
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational institutions	250	705				955	1,020
Multilateral development banks	713					713	836
Belgium	38	610	136	130		914	1,122
Germany	1,473	40				1,513	2,106
Finland	690					690	823
France	199	1,050	47	50	77	1,423	1,777
United Kingdom	618		323	192	90	1,223	1,694
Italy		49	46	247	62	404	506
Austria	817	19			125	961	1,093
Portugal			69	66	207	342	333
Spain		281	703	821	240	2,045	2,128
TOTAL	**4,798**	**2,754**	**1,324**	**1,506**	**801**	**11,183**	**13,438**

In 2016, the rating of a large part of the bank's foreign exposures in Finland, the United Kingdom and Austria fell from AAA to AA.

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including Covered bonds and RMBS transactions. The non-investment grade exposure in France and the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures in December 2016 amounted to EUR 544 million (year-end 2015: EUR 713 million).

The non-investment grade exposure in Spain fell by EUR 102 million. A EUR 20 million exposure relating to an infrastructure project was settled in late 2016. An individual provision of EUR 10 million was recognised for this exposure. The settlement led to an (on balance) positive result of over EUR 6 million. The non-investment grade exposure also fell by EUR 73 million due to the improved ratings of three Spanish RMBS transactions and by EUR 9 million due to scheduled repayments.

SECTOR RISK

Sector-specific policies and annual internal targets are used for lending without direct or indirect guarantees from the Dutch State. These sector targets relate to both the composition of the balance sheet and new transactions to be concluded in the bank's Annual Plan, and are part of the active portfolio management. Realisation of the targets is reported to the Management Board. The concentration risk per sector is also part of the Risk Management economic capital model used to assess the capital adequacy allocation.

INDIVIDUAL STATUTORY MARKET PARTIES

In terms of exposures to individual parties without direct or indirect guarantees from the Dutch State, maximum amounts apply to all parties that, regardless of individual credit quality, are much lower than the amounts permitted under the Large Exposure Regulation. These limits take into account the degree to which sectors are anchored in the public sector. Further limits are also established based on the parties in question's internal rating.

INDIVIDUAL FINANCIAL COUNTERPARTIES

Exposures to these parties primarily consist of interest rate and currency swaps that are concluded to mitigate market risks. Money market exposures can also apply. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it does business. This limits the number of available parties. The number of transactions with approved parties is therefore high. Daily exchange of collateral helps to mitigate the credit risk from these parties with respect to derivatives in terms of market value, resulting in operational risks. Default can also lead to market risks. Although the derivatives are measured at market value and the value of the collateral in this type of situation will be close to the market value, the market is subject to fluctuations while the derivatives need to be rearranged with another party. The Financial Counterparties Committee limits and monitors positions with financial counterparties.

A start was made on central clearing in 2016, which will gradually shift concentration risks to these parties. The bank uses a number of clearing members for this purpose. The basic principle when setting limits is that the limits imposed on clearing members are significantly lower than those imposed by the clearing members on BNG Bank. If a clearing member runs into difficulties, there is sufficient room within another clearing member's limit to transfer the transactions to this other party.

COUNTERPARTY RISK

The bank is exposed to counterparty risk in relation to public authorities (loans and advances), financial counterparties (derivatives) and issuers of interest-bearing securities (IBS) in which the bank has investments. BNG Bank applies the following credit risk mitigation measures:

- Because loans subject to solvency requirements are often extended under (partial) guarantees or suretyships, on balance the loan remains (partly) solvency-free for BNG Bank (see the section Statutory market parties). The guarantees are provided by a central or local authority or by the guarantee funds WSW and WfZ.
- Other forms of security, such as pledges and mortgages, do not replace creditworthiness for BNG Bank and are not used to reduce the capital requirement. They are used to minimise possible losses due to credit risks.
- Bilateral netting and collateral agreements based on a daily collateral exchange with financial counterparties. See also the section 'Financial counterparties'.

STATUTORY MARKET PARTIES

The bank's Articles of Association limit lending to parties subject to some form of government involvement. As a result, the credit portfolio is largely comprised of solvency-free loans and advances, provided to or guaranteed by the government. Despite the virtual absence of credit risk within this solvency-free portfolio, the bank also set up a process in 2016 for the assessment and review of the creditworthiness of parties that have only been granted loans and advances that are directly or indirectly guaranteed by the Dutch State. The Housing sector have been assessed, while reviews of the Healthcare sector are in progress. The bank's internal rating models are also used for these assessments.

In the case of the Social Housing (WSW) and Healthcare (WfZ) guarantee funds, the credit risk assessment of guaranteed institutions is carried out expressly by the guarantee fund concerned in addition to the abovementioned assessment by the bank. BNG Bank keeps a close eye on developments within the sectors in which it operates. This also applies to (the operation of) the institutions issuing the individual guarantees or suretyships. In addition, BNG Bank maintains contacts with relevant parties through a variety of channels, including conferences, seminars and bilateral talks.

Lending subject to solvency requirements are preceded by an extensive creditworthiness analysis.
- The Financial Analysis department draws up the credit proposal in consultation with the account manager. This contains a detailed assessment of the creditworthiness of the client concerned, based in part on the bank's own internal rating model. The greater the degree of tailoring involved in a transaction, the more intensive the operational risk procedure followed. To that end, the bank has implemented a tailor-made assessment process in order to keep the complexity manageable for both the client and the bank.
- The Credit Risk Assessment department prepares an independent second opinion on the credit proposal.
- The intensity of the decision-making process is determined based on the proposed rating and the size of the loan. The bank's risk appetite also determines the level of maximum credit risk the bank is prepared to accept for the client in question. The credit proposal must be in accordance with this maximum risk.
- The Credit Committee decides whether the credit is to be accepted. The Credit Committee is chaired by a member of the Executive Board and includes representation from the Public Finance directorate, the Credit Risk Assessment department and – where applicable – the Treasury department. If the Credit Committee is unable to form a unanimous opinion, the decision on the proposal is escalated to the Executive Board. A delegation model applies to loans and advances of limited scale or risk, in which authority to make decisions lies with the Director of Public Finance and the Credit Risk Assessment Manager.

Following the approval of a credit proposal and its acceptance by the client, the credit management process starts. This includes the following elements:
- The file is completed with relevant documentation by the Mid Office department.
- The Mid Office department is responsible for the file management, including monitoring securities and covenants.

- The creditworthiness is reviewed at least once a year. This involves an updating of the internal rating. The Credit Committee evaluates these reviews. A delegation model applies here as well. Loans and advances whose credit quality (rating) has fallen below a specific level (see the table below) are subject to increased management scrutiny and, if necessary, transferred to the Special Management group within the Credit Risk Assessment department.

CREDIT MODELS

Most of BNG Bank's clients do not have an external rating. The bank makes their creditworthiness transparent using internally developed rating models. Given the 'low default' character of the loan portfolio, expert models are utilised. Models are used for the following sectors:

- Public housing;
- Healthcare and Education;
- DBFMO (Design Build Finance Maintain Operate, project financing);
- Area development;
- Financial institutions;
- Energy, water, telecom, transport, logistics and the environment.

The significance of the internal ratings is the same for all models:

INTERNAL RATING	DESCRIPTION
0	Solvency-free lending.
1 through 11	The credit risk is deemed acceptable. A regular annual review is performed.
12 through 13	Watch list: there is a heightened credit risk. A review takes place at least twice a year.
14 through 17	Special Management: there is a strongly heightened credit risk. At least three times a year, a report on these debtors is submitted to the Executive Board.
18 through 19	Special Management: there is a strongly heightened credit risk and/or the debtor repeatedly fails to fulfil the payment obligations and/or there is no expectation of continuity. At least three times a year, a report on these debtors is submitted to the Executive Board.

FORBORN EXPOSURES

Forbearance concerns credit agreements whose credit conditions have been amended in the debtor's favour as a result of the debtor's precarious financial position, so as to enable it to fulfil its obligations. BNG Bank provides loans and advances that are subject to solvency requirements, as well as solvency-free loans and advances. Loans and advances that are not subject to solvency requirements are deemed to be free of credit risk by virtue of guarantees, collateral or by virtue of the status of the counterparty, such as the Dutch local authorities. This protection is not present in the case of loans and advances that are subject to solvency requirements.

The following table does not include interest-bearing securities, since the bank is unable to change the conditions of such securities.

	31/12/2016		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	% OF TOTAL	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE
SOLVENCY-FREE LOANS AND ADVANCES	**89,513**	**89%**	**20**
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
– 1 through 11	10,739	11%	90
– 12 through 13	415	0%	–
– 14 through 17	361	0%	81
– 18 through 19	33	0%	–
	11,548	**11%**	**171**
	101,061	**100%**	**191**

	31/12/2015		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	% OF TOTAL	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE
SOLVENCY-FREE LOANS AND ADVANCES	**88,971**	**88%**	**20**
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
– 1 through 11	11,737	12%	101
– 12 through 13	520	0%	6
– 14 through 17	313	0%	9
– 18 through 19	83	0%	0
	12,653	**12%**	**116**
	101,624	**100%**	**136**

The financial assets whose contractual terms have changed as a result of the debtor's unfavourable financial position amounted to EUR 191 million as at 31 December 2016 (year-end 2015: EUR 136 million). The share of forborne exposure in the total loan portfolio is 0.2% (year-end 2015: 0.1%) and concerns 7 debtors (year-end 2015: 7 debtors). Of these, 1 debtor was classified as forborne in 2016 with an outstanding exposure of EUR 72 million and 6 debtors were already forborne in 2015 with an outstanding exposure of EUR 119 million.

NON-PERFORMING EN IMPAIRED EXPOSURES

Non-performing exposures are exposures:

- whose contractual conditions have been breached by the debtor and/or payment arrears ('past due') exceeding 90 days ('default'); and/or
- in respect of which the debtor is not expected to be able to continue fulfilling its future payment obligations (in full) ('unlikely to pay'); and/or
- that are individually impaired.

The term 'past due' refers to the payment arrears commencing at the moment when the debtor has not paid (in full) by the date on which payment was due under the contract.

An exposure classified as non-performing can once again be regarded as performing if all the following conditions are met:

- the debtor once again complies with all contractual terms of the exposure (no default); and
- the debtor's situation has improved to the extent that the debtor is able to meet payment obligations according to an existing or adapted payment profile ('likely to pay'); and
- the debtor has no arrears exceeding 90 days.

Impaired exposures are exposures that are individually impaired. The term 'impairment' refers to write-offs on the items carried at fair value on the balance sheet, and loans for which an individual provision was made. Exposures included under the IBNI provision are not classified as impaired exposures. Likewise, off-balance sheet exposures are not classified as impaired either.

The tables below provide insight into the total exposure in loans and advances and interest-bearing securities, indicating which portions have been classified as non-performing and impaired respectively.

						31/12/2016
	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES	INTEREST-BEARING SECURITIES	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES
Amounts due from banks				240	0	0
Financial assets at fair value through the income statement	904	0	0	1,446	0	0
Financial assets available-for-sale				15,412	0	0
Loans and advances	86,151	129	129	1,467	16	16
TOTAL BALANCE SHEET VALUE	**87,055**	**129**	**129**	**18,565**	**16**	**16**
Contingent liabilities	105	0				
Irrevocable facilities	6,903	8				
Revocable facilities	6,998	0				
TOTAL EXPOSURE	**101,061**	**137**	**129**	**18,565**	**16**	**16**

	31/12/2015					
	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES	INTEREST-BEARING SECURITIES	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES
Amounts due from banks				485	0	0
Financial assets at fair value through the income statement	885	0	0	1,999	0	0
Financial assets available-for-sale				13,435	85	85
Loans and advances	87,531	127	67	1,884	18	18
TOTAL BALANCE SHEET VALUE	**88,416**	**127**	**67**	**17,803**	**103**	**103**
Contingent liabilities	99	0				
Irrevocable facilities	6,415	0				
Revocable facilities	6,694	0				
TOTAL EXPOSURE	**101,624**	**127**	**67**	**17,803**	**103**	**103**

The majority of the non-performing exposure relates to a client that became non-performing in 2016 with an outstanding credit exposure of EUR 91 million. An individual provision was made for this non-performing client in 2016. The non-performing exposure in interest-bearing securities relates to an investment in a Spanish client's securitisation programme.

The development of loans to debtors with non-performing exposures is shown in the following table.

	2016	2015
OPENING BALANCE	**127**	**115**
Increase in existing non-performing exposure not requiring an individual provision	0	2
Increase in existing non-performing exposure with an individual provision	0	0
Shift from performing to non-performing exposure	91	48
Shift from non-performing to performing exposure	–17	–
Repayments on and settlement of non-performing exposure	–64	–38
CLOSING BALANCE	**137**	**127**

An individual provision was made for the outstanding exposure relating to the client who became non-performing in 2016. With regard to two clients, the individual provision was used to settle the exposure. Movement in the incurred loss provision is explained in note 6.

POLICY ON LOANS AND ADVANCES PROVISION

BNG Bank employs a number of triggers that may lead to an individual loan loss provision:

- an internal rating of 14 of higher, or
- payment arrears and/or a breach of the contractual terms exceeding 90 days ('default') and/or the debtor is no longer expected to meet its payment obligations in full ('unlikely to pay').

The individual facility only relates to loans and advances subject to solvency requirements. Loans and advances that are not subject to solvency requirements are deemed to be free of credit risk on account of guarantees, collateral or by virtue of the status of the counterparty, such as the Dutch local authorities. Furthermore, the bank has a collective provision based on a so-called Incurred But Not Identified (IBNI) model. For loans and advances and off-balance exposures subject to solvency requirements, this model calculates a provision based on factors such as exposure and the debtor's rating. Lastly, for loans and advances that are solvency-free due to a local authority guarantee, the model calculates a provision on the basis of a premium for operational risk. Both provisions fall under the regulatory specific credit risk adjustment.

MATURITY ANALYSIS OF PAST DUE FINANCIAL ASSETS (LOANS AND ADVANCES) WITHOUT INDIVIDUAL IMPAIRMENT

	31/12/2016	31/12/2015
Less than 31 days	0	1
31 through 60 days	–	0
61 through 90 days	–	0
Over 90 days	0	1
CLOSING BALANCE	**0**	**2**

IMPAIRMENTS

The impairments of financial assets are explained in note 32.

EXTERNAL RATING

BNG Bank uses the external ratings awarded by rating agencies, specifically S&P, Moody's, Fitch and DBRS. In determining the capital requirement, the bank uses the ratings of these four agencies if such ratings are available. Where possible, this applies to exposures to financial counterparties and investments in listed securities. The ratings relate to the counterparties themselves or specifically to the securities purchased.

FINANCIAL COUNTERPARTIES

The bank only does business with financial counterparties that have been rated by an external agency. These parties, too, are periodically assessed for creditworthiness. This creditworthiness analysis includes an assessment of the internal rating. A limit is subsequently set. The market risks associated with these parties are mitigated primarily through derivative transactions. Money market exposures can also apply.

The credit risk of derivative transactions is relatively small, despite the fact that principal amounts totalled EUR 240 billion at year-end 2016 (2015: EUR 243 billion). With the exception of currency derivatives, these contractual principal amounts merely serve as accounting quantities and do not reflect the size of cash flows or the risk associated with the derivatives. The credit equivalent of the derivatives portfolio serves as a more accurate indicator in this regard. The credit risk is expressed in terms of credit equivalents, in accordance with central bank guidelines. The credit equivalent consists of the market value plus an add-on for future credit risk. Contracts with a positive value – where contractual default by the counterparty would cause the bank to miss out on revenue – are relevant in this regard. BNG Bank determines this value using the Mark-to-Market (MtM) method. In addition, the principal amounts are multiplied by percentages based on the specific product and its maturity period in order to determine the potential credit risk ('add-on'). The sum of these two values (credit equivalent) indicates the gross exposure to credit risk. Collateral received is offset in order to calculate the net credit exposure. These figures reflect netting of the positive and negative market values of contracts per counterparty.

	31/12/2016			31/12/2015		
	MTM VALUE	ADD-ON	TOTAL	MTM VALUE	ADD-ON	TOTAL
CREDIT EQUIVALENTS OF DERIVATIVES ON THE ASSET SIDE OF THE BALANCE SHEET						
Interest contracts	1,633	810	2,443	1,378	402	1,780
Currency contracts	1,198	1,140	2,338	1,609	376	1,985
TOTAL	**2,831**	**1,950**	**4,781**	**2,987**	**778**	**3,765**
Less: Collateral received	1,563		1,563	1,731		1,731
TOTAL AFTER DEDUCTION OF COLLATERAL	**1,268**	**1,950**	**3,218**	**1,256**	**778**	**2,034**

At year-end 2016, the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1,621 million (2015: EUR 1,211 million).

Financial counterparties with which BNG Bank actively concludes derivatives transactions are offered netting agreements in order to reduce the credit risk. In addition, bilateral collateral agreements are concluded. These ensure that market value developments are mitigated on a daily basis by collateral. The agreements are updated where necessary in response to regulatory changes. However, these agreements are not eligible for balance sheet netting. The following table shows the positions if these agreements were to meet the conditions for balance sheet netting and if the collateral agreements were taken into account.

	31/12/2016		
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance sheet netting	15,412	24,780	**–9,368**
Gross value of the financial liabilities to be netted	–	–	**–**
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**15,412**	**24,780**	**–9,368**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	12,543	12,543	**–**
EXPOSURE BEFORE COLLATERAL	**2,869**	**12,237**	**–9,368**
Value of financial collateral that does not comply with IAS 32 for netting purposes	1,776	11,795	**–10,019**
NET EXPOSURE	**1,093**	**442**	**651**

			31/12/2015
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance sheet netting	16,370	23,261	**–6,891**
Gross value of the financial liabilities to be netted	–	–	**–**
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**16,370**	**23,261**	**–6,891**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	13,347	13,347	**–**
EXPOSURE BEFORE COLLATERAL	**3,023**	**9,914**	**–6,891**
Value of financial collateral that does not comply with IAS 32 for netting purposes	1,761	10,041	**–8,280**
NET EXPOSURE	**1,262**	**–127**	**1,389**

At year-end 2016, the paid-up collateral amounted to EUR 11.8 billion (2015: EUR 10.1 billion). The deterioration of BNG Bank's rating by three notches would increase this amount by EUR 35 million (2015: EUR 35 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, higher collateral obligations.

COUNTERPARTIES WITH INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

BNG Bank's IBS portfolio is held primarily for liquidity management purposes. The portfolio is composed of high-quality bonds, the majority of which are accepted as collateral by the central bank. BNG Bank's total IBS portfolio can be subdivided into a liquidity portfolio and an ALM (Asset & Liability Management) portfolio. The liquidity portfolio consists exclusively of highly negotiable securities and is subdivided according to the various LCR levels as shown in the table below. The ALM portfolio is subdivided according to type of security. Each month, the development of the portfolio is reported to and discussed by the committee concerned. Using factors such as external ratings and – in part – internal ratings, the bank monitors the development on an individual basis. The securities qualifying in accordance with the Delegated Act are subjected to a due diligence review process. The assets within these portfolios undergo an impairment analysis twice a year.

The amounts shown below per rating category are remaining principal amounts in millions of euros. The total balance sheet value is also shown in the final column.

							31/12/2016
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	5,180	3,473	92	170	46	8,961	11,097
Level I B – Covered bonds	926	185				1,111	1,201
Level II A – Government/ Supranational		58		9		67	103
Level II A – Covered bonds			25			25	26
Level II B – Corporates			25			25	29
Level II B – RMBS	1,053	3				1,056	1,069
	7,159	**3,719**	**142**	**179**	**46**	**11,245**	**13,525**
ALM PORTFOLIO							
RMBS	42	183	194	260	117	796	715
Covered bonds			160	345		505	592
ABS	108	1	187		61	357	357
NHG	1,148	149	375			1,672	1,652
Other	46	329	484	132	120	1,111	1,724
	1,344	**662**	**1,400**	**737**	**298**	**4,441**	**5,040**
TOTAL	**8,503**	**4,381**	**1,542**	**916**	**344**	**15,686**	**18,565**

	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
							31/12/2015
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	6,069	2,320		257	46	8,692	10,891
Level II A – Covered bonds			177			177	189
Level II A – Government/ Supranational		68		13		81	106
Level II B – Covered bonds	664	105				769	851
Level II B – Corporates			65			65	70
Level II B – RMBS	762	9				771	781
	7,495	**2,502**	**242**	**270**	**46**	**10,555**	**12,888**
ALM PORTFOLIO							
RMBS/CMBS	51	177	216	340	202	986	938
Covered bonds		40	267	420		727	800
ABS	115	7	207		62	391	391
NHG	669	123	307			1,099	1,078
Other	386	19	446	185	245	1,281	1,708
	1,221	**366**	**1,443**	**945**	**509**	**4,484**	**4,915**
TOTAL	**8,716**	**2,868**	**1,685**	**1,215**	**555**	**15,039**	**17,803**

The liquidity portfolio has increased and improved in quality mainly due to investments in Covered bonds and securitisations with a better rating. As a result of changes in the regulations, Covered bonds classify more as Level I B, and therefore been removed from Level II B. The ALM portfolio has remained fairly stable, however more NHG securities have been purchased (in nominal value).

TRANSFER OF FINANCIAL ASSETS WITHOUT DERECOGNITION

At year-end 2016 and 2015, BNG Bank had transferred no interest-bearing securities in repurchase transactions without derecognition. At year-end 2016, BNG Bank has no financial assets in its portfolio that were transferred and derecognised and in which it has a continuing involvement. Financial assets are not removed from the balance sheet if BNG Bank retains the credit risks and the rights to the underlying cash flows.

SETTLEMENT RISK

Exposure to settlement risks is mainly limited to transactions with financial counterparties. In addition to hedging counterparty risk, the netting and collateral agreements concluded with those parties serve to limit settlement risks resulting from the mutual offsetting of payments. Control measures throughout the operational process serve to further mitigate the settlement risk. An extensive review of these control measures was launched in 2016 due to changing circumstances, such as the introduction of central clearing. An explicit allocation of capital under Pillar II also took place in 2016. The review will continue in 2017 and could lead to additional control measures. Capital allocation is periodically revised as part of the ICAAP process.

Market risk

DEFINITIONS

Market risk is defined as existing or future threats to the bank's capital and results as a result of market price fluctuations. There are several forms of market risk (including replacement risk): interest rate risk, foreign exchange risk, volatility risk and fluctuations in credit and liquidity risk spreads.

- Interest rate risk is defined as the risk to annual results and capital arising from unfavourable market interest rate fluctuations.
- Foreign exchange risk is defined as the risk to annual results and capital arising from unfavourable exchange rate fluctuations.
- Volatility risk is defined as the risk to the annual result and capital arising from unfavourable fluctuations in the volatility of market interest rates or currencies expected by the market (also known as 'implied volatility').
- Spread risk is defined as the risk to annual results and capital arising from unfavourable credit and liquidity risk spread fluctuations.

DEVELOPMENTS

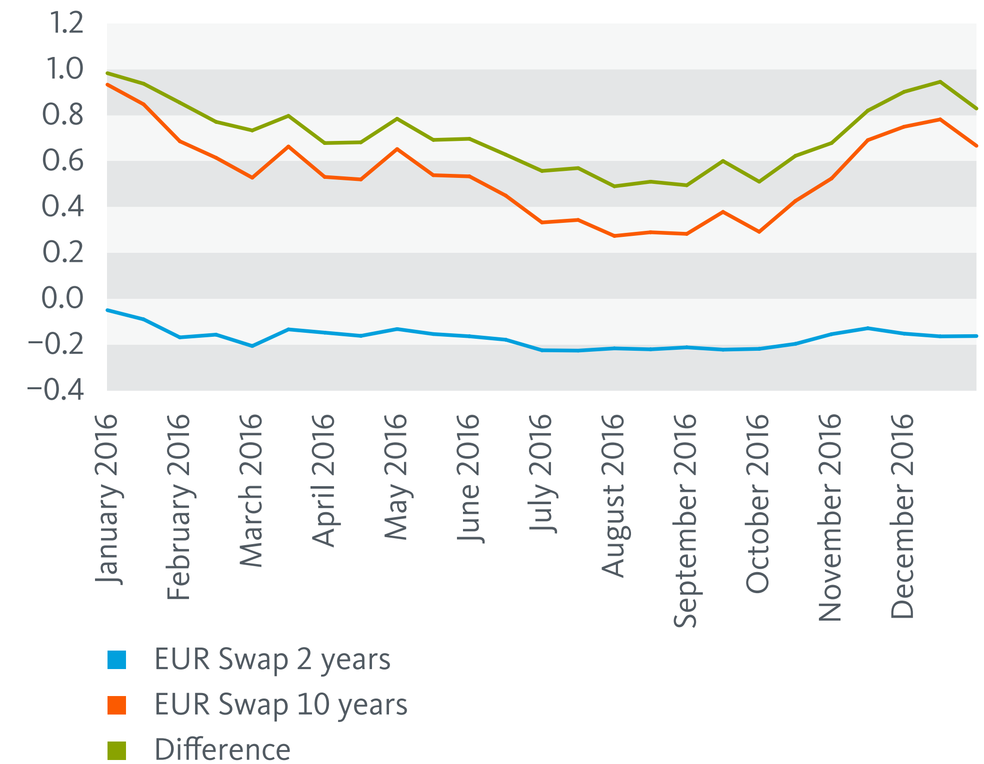
The bank opted, as in previous years, for a restrictive interest rate position in 2016. The interest rate position measured in basis point sensitivity was low throughout the year compared to the long-term benchmark applied by the bank. This benchmark reflects a neutral investment of equity without a specific interestrate outlook. The choice of interest rate position took into account that the likelihood of additional return in terms of market value due to a further decline in interest rates does not sufficiently compensate for the loss of market value if interest rates go up. Given the current low interest rate and its expected development, the bank continues to exercise restraint (see the graph below). In conformity with the bank's market risk policy, the foreign exchange position in terms of cash flows was virtually zero throughout year.

INTEREST RATE RISK

BNG Bank applies an active interest rate position policy, aimed at achieving additional return on equity by anticipating interest rate fluctuations. The Asset & Liability Committee (ALCO) is responsible for implementing this policy. ALCO is made up of the Executive Board members, the Managing Director of Treasury and Capital Markets, The Company Secretary and representatives from the Risk Management and Economic Research departments. Working on the basis of market forecasts from Treasury and Economic Research, ALCO periodically determines the bank's interestrate outlook and defines – within the predetermined frameworks – the interest rate position and the limits within which the Treasury and Capital Markets directorate will operate.

EUROPEAN SWAP CURVE

(in %)



The Treasury and Capital Markets directorate is responsible for day-to-day interest-rate risk management. This directorate is responsible for hedging the market risks resulting from commercial activities. Treasury has the scope to adopt an interest rate position within the limits imposed by ALCO. The scope for ALCO to set limits is restricted by the Pillar II capital explicitly allocated for this purpose. Stress scenarios are used to continually assess whether this capital is sufficient.

Risk Management is responsible for the independent monitoring of market risk and checks daily whether the bank remains within its limits. The department prepares reports for ALCO and Treasury and provides risks analyses and advice, both proactively and on request. It also plays an important role in the decision to assume new market risks (as part of the product approval process).

The principal interest rate risk standard applied by BNG Bank is the sensitivity (delta) of the economic value of the bank's equity to changes in the interest-rate curve. The delta is determined for several maturity intervals on the interest-rate curve and is reported daily. ALCO manages the interest-rate risk position based on the delta for each maturity interval. In addition, the bank carries out monthly scenario analyses and stress tests and analyses the basic risks and the Earnings at Risk figures. These interest-rate risk standards complement each other and ensure the transparency and manageability of risks. To this end, the bank prepares reports (in various degrees of detail and at various frequencies) for a range of target groups.

ALCO has set limits and early warning levels for the principal risk standards, which are monitored by Risk Management. The bank also sees to it that the outlier criterion is not exceeded, applying an internal threshold value which serves as an early warning. The outlier criterion is prescribed by the Basel regulations, where it is used to express the maximum relationship between market risk and equity. In this context, the market risk is measured under extreme conditions with an instantaneous parallel interest rate shock of plus or minus 200 basis points.

The table below outlines the effect of an instantaneous interest-rate shock at the end of 2016. It provides an overview of the resulting market value fluctuation. This fluctuation is then broken down in terms of its impact on the bank's results or equity. Finally, the right column outlines the market value fluctuation's estimated effect on the financial instruments recorded at amortised cost on the balance sheet. The market value changes within this category have no direct impact on the bank's results or equity.

	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	TOTAL CHANGE IN MARKET VALUE		IMPACT ON THE INCOME STATEMENT		IMPACT ON EQUITY		NO DIRECT IMPACT ON INCOME STATEMENT OR EQUITY	
INTEREST RATE SHOCK								
+200 basis points	409	−114	67	23	−39	2	381	−139
−200 basis points	−1.144	133	−398	−20	−15	−5	−731	158

The market values of both the bank's assets and the bank's liabilities are calculated by BNG Bank's discounting cash flow using the current swap rates and the current credit and liquidity risk spreads. As a result, the market values and associated sensitivities depend partly on changes in the credit and liquidity risk spreads, while movements in market value as a result of these changes will never become apparent if the assets or liabilities are held to maturity. The table above shows the movements in market value, including the effects of the updated credit and liquidity risk spreads. However, policy rests on the assumption that assets and liabilities will be held to maturity. BNG Bank therefore chooses to base its active interest rate policy on sensitivities, adjusted for the effects of changing credit and liquidity risk spreads.

The table shows that, in market value terms, the bank became more sensitive to major interest rate fluctuations in 2016. Whether the market value changes for the various interest rate shocks are positive or negative has also changed in most cases. Thanks to BNG Bank's policy to largely restrict the interest rate risk, the sensitivity to interest rate fluctuations for assets and that for liabilities lie very close together, meaning that the total sensitivity (the sum of the two) is close to nil.Therefore the impact if the market sensitivity arising from current credit spreads is relative large, which can lead both to changes in positive or negative direction and vice versa. The credit spreads for liabilities fell more sharply than the credit spreads for assets in 2016, amongst other things due to the ECB's Quantity Easing programme.

Because BNG Bank's policy does not provide for early redemption options in its regular loan products and consequently there is no material presence of such options in its portfolio, there is no necessity to model client behaviour. Likewise, there is no material exposure in mortgages, while the bank does not offer savings accounts for private individuals.

FOREIGN EXCHANGE RISK

The bank obtains a large portion of its funding in foreign currencies and is thus exposed to major potential foreign exchange fluctuations. The bank's policy specifies that all foreign exchange risks should be hedged in full. Incidental foreign exchange positions may occur in certain cases where it is not cost-efficient to hedge these risks. The foreign exchange risk of these minor positions is also measured on a daily basis.

VOLATILITY RISK

In managing its interest rate exposure, the bank has a very limited margin for assuming volatility risk. This margin is limited and monitored by the Risk Management department. With regard to its other activities, BNG Bank's policy specifies that the volatility risks for new products should be hedged in full. There are still some minor positions exposed to volatility risks that were arranged in the past.

CREDIT SPREADS, LIQUIDITY PREMIUMS AND INTEREST-RATE RISK MANAGEMENT

The economic value of BNG Bank's equity is determined over its portfolio of assets and liabilities. Both assets and liabilities are valued on the basis of an interest rate curve made up of market-based swap rates plus credit and liquidity risk spreads and discounts. The impact of changes in these spreads and discounts is measured periodically. The bank's interest rate position is determined based on interest rates excluding these spreads and discounts, which means that changes in these spreads and discounts will not affect that position.

Liquidity and funding risk

DEFINITIONS

Liquidity risk is defined as the existing or future threat to the institution's capital and results due to a default at any given time on its payment obligations without incurring any unacceptable costs or losses.

- Short-term liquidity risk is defined as the risk that the bank will not be able to attract sufficient funds to meet its payment obligations.
- Refinancing or long-term liquidity risk is defined as the risk that the bank will not be able to attract any (or sufficient) funds to ensure that the continuity of its operations is not jeopardised, for example due to fluctuations in its own creditworthiness.

DEVELOPMENTS

A new monitoring cycle was brought into use in 2016, which involves quarterly monitoring by ALCO of the desired funding mix described in the Funding Plan. The system of liquidity limits and underlying assumptions was also reviewed and included in a renewed daily liquidity report. Furthermore, more opportunities for liquidity stress testing were introduced and monitoring of the Liquidity Coverage Ratio (LCR) on a forward-looking basis was made possible.

LIQUIDITY

Based on its function for the public sector, BNG Bank wants to provide a constant and stable presence in the market and continue meeting the demand for credit, even in difficult times. It also pursues a prudent liquidity position to ensure that it can meet its obligations at all times. In this context, ongoing access to the money and capital markets is essential, and with it the ongoing maintenance of attractive, varied and sufficiently large issue programmes for investors. In addition, buffers are required in order to have access to liquidity at times of stress. One such buffer is formed by assets held explicitly for liquidity purposes, known as the liquidity portfolio. The size of this portfolio is also in line with the requirement under the CRR to have an LCR of at least 100%. BNG Bank also holds an ample quantity of collateral with the central bank, which enables it to obtain short-term funding immediately. Since a very large portion of the assets could serve as collateral, this collateral may be further extended in the event of prolonged stress.

The limits to the maximum permitted funding deficits in the short term and in the long term are an explicit part of the risk appetite and directly determine the level of the principal liquidity limits. The risk appetite also requires a survival period. The survival period is the period in which the standard liquidity buffers, meaning without management intervention, are sufficient for absorbing the consequences of a stress scenario. Survival periods are determined under a market-specific and an institution-specific stress scenario. The survival periods indicated by the stress tests meet the requirement laid down in the risk appetite to be able to endure for nine months without access to funding. During this period, the bank can then also continue to provide its core client groups with liquidity, fulfilling its ambition to assist its clients even in difficult times.

The Treasury has been tasked with implementing the funding and liquidity policy on a daily basis. The Risk Management department independently reports to ALCO on the use of predetermined limits. Funding deficits are then checked daily against all limits, both short term and long term. The bank believes that its liquidity management is adequate and that the strength of the bank’s liquidity position is both amply sufficient and in compliance with the regulatory standards.

FUNDING

BNG Bank distinguishes between short-term and long-term funding. As most of its funding comes from the capital market and the money market, the bank maintains a number of programmes that enable it to enter the market at all times at, and at good rates. The bank pursues active investor relations management for this purpose. The following resources are used for short-term funding:

- Commercial Paper. The bank has a European Commercial Paper (ECP) programme of a maximum of EUR 20 billion and a US Commercial Paper (USCP) programme of a maximum of USD 15 billion. Under normal circumstances, a substantial margin is maintained between the maximum size allowed under the programme and the bank's actual usage;
- repurchase transactions with interbank parties under a Global Master Repurchase Agreement (GMRA);
- deposits from institutional money market parties;
- refinancing operations by the European Central Bank, if necessary.

The bank does not enter into transactions with private individuals and therefore has practically no retail deposits. Due to the 'treasury banking' obligation, the bank is no longer able to use the deposits of local authorities.

The following programmes are available for long-term funding:

- the Debt Issuance Programme (DIP) of a maximum of EUR 100 billion. Socially Responsible Investing (SRI) bonds are also issued under this programme;
- the Kangaroo-Kauri Programme, specifically for the Australian and New Zealand market, of AUD 10 billion;
- the Samurai shelf registration and Uridashi shelf registration, specifically for Japanese investors.

For reasons of diversification, the bank also uses the following in order to finance its activities:

- funding raised in exchange for instruments from the liquidity portfolio as collateral (repurchase transactions);
- Guaranteed Investment Contracts (GICs).

The bank has a funding plan in which the desired funding mix is described in more detail. Part of the funding plan is the annual placement of benchmark issues. These large-scale issues ensure that the bank has a high profile among investors, allowing it to retain access to investors even in times of market stress. The actual realisation of this desired funding mix or the reason for diverging from it is monitored.

MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES ON THE BASIS OF THE REMAINING CONTRACTUAL PERIOD

The amounts featured in the table below represent the non-discounted future cash flows of financial assets and liabilities. For the maturity analysis of issued guarantees and irrevocable commitments, see the ‘Other notes to the consolidated financial statements’ section.

					31/12/2016
	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	6,417	–	–	–	6,417
Amounts due from banks	11,670	30	99	4	11,803
Financial assets at fair value through the income statement	72	64	418	2,525	3,079
Financial assets available-for-sale	201	844	6,142	9,369	16,556
Loans and advances	6,737	8,615	36,103	58,808	110,263
Other assets	56	–	–	–	56
TOTAL ASSETS (EXCL. DERIVATIVES)	**25,153**	**9,553**	**42,762**	**70,706**	**148,174**
Amounts due to banks	−3,288	−196	−10	−44	−3,538
Financial liabilities at fair value through the income statement	−3	−124	−320	−1,031	−1,478
Current tax liability	–	−32	–	–	−32
Debt securities	−14,619	−15,727	−51,414	−42,309	−124,069
Funds entrusted	−3,372	−435	−2,806	−1,551	−8,164
Subordinated debts	−1	−1	−3	−44	−49
Other liabilities	−97	–	–	–	−97
TOTAL LIABILITIES (EXCL. DERIVATIVES)	**−21,380**	**−16,515**	**−54,553**	**−44,979**	**−137,427**

Continued on next page

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	31/12/2016				
	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	9,799	14,136	32,948	20,793	77,676
Assets amounts payable	−8,122	−11,201	−24,054	−12,038	−55,415
DERIVATIVES STATED AS ASSETS	**1,677**	**2,935**	**8,894**	**8,755**	**22,261**
Liabilities amounts receivable	3,279	1,479	5,490	14,862	25,110
Liabilities amounts payable	−4,099	−3,988	−14,401	−27,932	−50,420
DERIVATIVES STATED AS LIABILITIES	**−820**	**−2,509**	**−8,911**	**−13,070**	**−25,310**
GRAND TOTAL	**4,630**	**−6,536**	**−11,808**	**21,412**	**7,698**

					31/12/2015
	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	3,175	–	–	–	3,175
Amounts due from banks	10,093	206	249	6	10,554
Financial assets at fair value through the income statement	23	69	468	3,509	4,069
Financial assets available-for-sale	135	606	4,976	8,659	14,376
Loans and advances	5,940	10,259	37,465	59,939	113,603
Other assets	27	–	–	–	27
TOTAL ASSETS (EXCL. DERIVATIVES)	**19,393**	**11,140**	**43,158**	**72,113**	**145,804**
Amounts due to banks	−2,969	–	–	–	−2,969
Financial liabilities at fair value through the income statement	−8	−101	−387	−1,868	−2,364
Current tax liability	–	−18	–	–	−18
Debt securities	−10,917	−21,347	−50,871	−39,173	−122,308
Funds entrusted	−2,576	−259	−1,869	−2,867	−7,571
Subordinated debts	−1	−1	−5	−44	−51
Other liabilities	−78	–	–	–	−78
TOTAL LIABILITIES (EXCL. DERIVATIVES)	**−16,549**	**−21,726**	**−53,132**	**−43,952**	**−135,359**

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	31/12/2015				
	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	8,052	16,693	29,905	24,428	79,078
Assets amounts payable	−6,851	−13,355	−20,907	−15,855	−56,968
DERIVATIVES STATED AS ASSETS	**1,201**	**3,338**	**8,998**	**8,573**	**22,110**
Liabilities amounts receivable	3,622	1,531	6,164	17,535	28,852
Liabilities amounts payable	−4,422	−3,830	−15,033	−29,249	−52,534
DERIVATIVES STATED AS LIABILITIES	**−800**	**−2,299**	**−8,869**	**−11,714**	**−23,682**
GRAND TOTAL	**3,245**	**−9,547**	**−9,845**	**25,020**	**8,873**

LIQUIDITY PORTFOLIO

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced under the CRD IV regulations. The LCR indicates to what extent BNG Bank has an adequate buffer of liquid assets in order to absorb a stressed net outgoing cash flow over a 30-day period. The NSFR is a ratio for liquidity over a one-year period. This ratio is calculated by dividing the available stable funding by the required stable funding. Both the LCR and the NSFR should be at least 100%.

BNG Bank makes relatively little use of deposits and much use of the capital market. Deposits have a more even expected redemption pattern than issues on the capital market. The LCR may fluctuate when issues are placed or redeemed. Since such developments are easy to predict, however, pre-emptive steps can be taken in time. In addition, the movements in the market value of the derivatives used to hedge the interest rate risk and foreign exchange risks cause the level of the LCR to fluctuate via the collateral obligations securing these derivatives. The LCR is calculated a year in advance each month using an LCR projection model. This way, the bank can identify potential deficit situations in advance.

At year-end 2016, the LCR based on the Delegated Act was 173% (2015: 171%) and, as such, met the minimum standard. The NSFR is expected to take effect on 1 January 2018. Measured against the currently applicable definitions, the bank complies with this liquidity requirement. Given that the NSFR has a longer horizon, its results are more stable in nature than those of the LCR. The NSFR at year-end 2016 amounted to 130% (2015: 120%) and, as such, was also well above the 100% limit.

BNG Bank has a liquidity portfolio which enables it to create additional liquidity in a relatively short period under stressful circumstances. This desire originates primarily in prudential liquidity policy, but also in the obligation to fulfil the new regulatory requirements.

At year-end 2016, the value of the liquidity portfolio for the purpose of calculating the LCR amounted to EUR 13.6 billion (2015: EUR 12.9 billion). The EUR 0.7 billion increase in the LCR value (2015: EUR 3.8 billion increase) is largely attributable to the increase in the unencumbered volume of the liquidity portfolio.

LCR CLASS	31/12/2016 REMAINING PRINCIPAL AMOUNT*	REMAINING PRINCIPAL AMOUNT UNENCUMBERED	MARKTET VALUE UNENCUMBERED	LCR VALUE UNENCUMBERED
Level I – Cash and balances held with DNB/ECB	754	754	754	754
Level I – Government	6,030	5,860	7,939	7,685
Level I – Supranational	2,931	2,931	3,159	3,159
Level I B – Covered bonds	1,111	1,111	1,203	1,119
Level II A – Covered bonds	25	25	26	22
Level II A – Government/Supranational	67	67	103	88
Level II B – RMBS	1,056	1,056	1,069	803
Level II B – Corporates	25	25	29	15
	11,999	**11,829**	**14,282**	**13,645**

* Including collateral received in the form of securities (not shown on balance sheet).

	31/12/2015			
	REMAINING PRINCIPAL AMOUNT*	REMAINING PRINCIPAL AMOUNT UNENCUMBERED	MARKTET VALUE UNENCUMBERED	LCR VALUE UNENCUMBERED
LCR-CLASS				
Level I – Cash and balances held with DNB/ECB	401	401	401	401
Level I – Government	5,991	5,976	7,891	7,867
Level I – Supranational	2,701	2,701	3,001	3,001
Level I B – Covered bonds	769	769	853	793
Level II A – Covered bonds	177	177	191	162
Level II A – Government/Supranational	81	81	106	90
Level II B – RMBS	771	771	782	587
Level II B – Corporates	65	65	70	35
	10,956	**10,941**	**13,295**	**12,936**

* Including collateral received in the form of securities (not shown on balance sheet).

NOTES:
- Market value unencumbered: market value of the unencumbered part of the liquidity portfolio;
- LCR value unencumbered: LCR liquidity value of the unencumbered part of the portfolio.

At year-end 2016, a nominal amount of EUR 170 million in assets from this portfolio was used as collateral for derivatives transactions (2015: EUR 15 million). No interest-bearing securities from the liquidity portfolio were used as collateral for repurchase transactions at either year-end 2016 or year-end 2015.

ENCUMBERED AND UNENCUMBERED FINANCIAL ASSETS

In times of funding and liquidity needs, encumbered financial assets are not freely disposable to be able to meet these needs in the short term. The following table shows the balance-sheet values of the assets, broken down into encumbered (not freely available) and unencumbered (freely available) assets.

			31/12/2016
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances held with central banks	–	6,417	6,417
Amounts due from banks	11,541	254	11,795
Financial assets at fair value through the income statement	–	2,350	2,350
Derivatives	–	15,412	15,412
Financial assets available-for-sale	254	15,183	15,437
Loans and advances	425	87,151	87,576
Value adjustments on loans in portfolio hedge accounting	–	14,894	14,894
Non-financial assets	–	119	119
TOTAL	**12,220**	**141,780**	**154,000**
AVERAGE (TOTAL) IN 2016	**15,914**	**146,863**	**162,777**

	31/12/2015		
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances held with central banks	–	3,175	3,175
Amounts due from banks	10,041	499	10,540
Financial assets at fair value through the income statement	–	2,884	2,884
Derivatives	–	16,370	16,370
Financial assets available-for-sale	24	13,435	13,459
Loans and advances	437	88,929	89,366
Value adjustments on loans in portfolio hedge accounting	–	13,559	13,559
Non-financial assets	–	158	158
TOTAL	**10,502**	**139,009**	**149,511**
AVERAGE (TOTAL) IN 2015	**10,949**	**145,101**	**156,050**

Operational risk

DEFINITIONS

Operational risk is defined as the risk of losses due to the shortcomings of internal processes, people and systems, or as a result of external events. In addition to the general operational risk, operational risk comprises the following risks:

- IT risk is the risk that business processes and information systems are supported by information technology whereby protection is insufficiently sound, discontinuous or unsatisfactory.
- Outsourcing risk is the risk that the continuity, integrity and/or quality of activities outsourced to third parties or the equipment or staff provided by these third parties are adversely affected.
- Integrity risk is the risk that the institution's integrity is adversely affected by unprofessional or unethical behaviour by the organisation or its employees and clients in breach of applicable legislation or social and institutional standards.
- Legal risk is the risk associated with (changes in and compliance with) legislation and potential threats to the institution's legal status, including the possibility that contractual stipulations prove unenforceable or have been incorrectly documented.

GENERAL

Line management has primary responsibility as the 'first line of defence' for managing operational risk in day-to-day operations, in conformity with policy and arrangements. In this, it is supported by specialised departments, such as the Internal Control department. Although operational risks cannot be fully mitigated, they must obviously be made transparent and manageable.

Risk Management, Compliance and Security constitute the 'second line of defence' and are responsible for providing an overview and understanding of risks, as well as control guidelines. They support and advise line management by facilitating periodical risk control self assessments and by analysing operational risks. The risks, control measures and residual risks identified are documented. They will propose supplementary control measures where necessary and monitor their timely implementation. Residual risks will be communicated to the responsible managing director, who will, if applicable, advise the Executive Board on their acceptance Risk Management is involved in process changes in the context of operational risk management.

The Internal Audit Department (IAD) conducts independent assessments in supplement to the risk analyses by Risk Management, Compliance and Security and the activities of Internal Control, in order to determine the existence and effect of control measures. The IAD thereby constitutes the 'third line of defence' and reports to the Executive Board. Each year, the managing directors and the department heads inform the Executive Board whether they are in control of the processes and risks for which they are responsible. The compliance officer conducts periodical integrity risk analyses.

BNG Bank registers all operational incidents upwards of an impactof EUR 5,000. To this end, employees involved in the operational process report all incidents to Risk Management. The incidents are handled within the operational process. Risk Management conducts joint assessments with the various departments in order to determine whether the prevention of future incidents will require any adjustments to the process, systems or working methods. Every quarter, Risk Control reports on incidents to the Executive Board and management. It provides annual reports on incidents involving a loss of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. Like the Incidents Report for 2015, the 2016 report contained no incidents with an impact in excess of EUR 100,000. The impact of operational incidents on the bank's annual results in both 2015 and 2016 was very limited. Incidents which pose a serious threat to the ethical conduct of the business must be reported to the regulator. No such incidents occurred in 2016.

DEVELOPMENTS

The permanent focus on data quality led to the introduction of the Data and Information Management department on 1 October. This department is responsible for developing a joint data warehouse, as well as improving the recording of electronic client records. The aim of both initiatives is to meet internal information needs, but also to comply with rapidly evolving external requirements in this area and the often strict deadlines that apply to requests for information.

A pilot is taking place within the credit process that involves a new style of working based on the Lean philosophy, which should improve effectiveness and efficiency provided that controlled operations are in place.

The regulator is imposing increasingly stringent criteria on the way in which insight is provided into operational risk management. The ‘second line of defence’ plays an important role in this process. The risk appetite for operational risk cascaded further in 2016 towards indicators, measurable as far as possible, that show how much operational risk the bank is exposed. The measurement will be refined further in 2017.

Work pressure is high in parts of the organisation. The resulting operational risks remain a point for concern, but have not caused an increase in the number of incidents. The workforce will be considerably strengthened in 2017. BNG Bank is a technology-intensive and knowledge-intensive business with a relatively small number of staff members. This may result in dependence on particular persons. A focus is placed on knowledge sharing and cooperation, for instance via exchange programmes between departments. Various specialist topics regularly require external expertise. This expertise will be ensured within the bank.

Operational risk has a soft component, also referred to as ‘culture’. BNG Bank is convinced of the importance of this component and includes it in the various operational risk management activities, such as the risk analyses and the banker’s oath.

IT RISK

The bank's information policy is based around an information system that allows the bank to continue executing its company strategy successfully. The information policy is reviewed annually, based on the business strategy objectives and external developments.

The management of IT risk is based on the application of preventative rather than remedial measures. These measures are aimed at preventing (potential) incidents or detecting them at the earliest possible opportunity and preventing the potential damages or restoring the desired situation as quickly as possible. In order to guarantee the continuity of IT support at the bank, a fallback test was also conducted in 2016. This successful test demonstrated that the bank's backup systems are adequately equipped to ensure that services continue as normal in the event of a calamity. Furthermore, the systems are frequently tested for sensitivity to hacking. All Bank employees received information security training in 2016 in the form of interactive information sessions. There were no information security incidents in 2016.

In setting up information systems, the key principles are services to clients, regulatory requirements and risk management. To limit the IT risk, the bank seeks to reduce the complexity of its IT systems. The dynamics of the financial markets and statutory and regulatory requirements constitute a challenge to the bank in this regard. For the bank's IT organisation, this has resulted in considerable investment in hardware and software and a full project portfolio. The development of a central data warehouse also requires the necessary internal and external IT capacity. The process of strengthening the information management function will be continued in 2017.

Agile working is becoming a more and more popular approach to carrying out projects. A team which consists of employees of the business side, analysts and developers are working together in close collaboration to achieve the desired result. The 'product owner' has the deciding vote within the team, taking into account the interests of all stakeholders. These agile projects are initiated and managed via the project portfolio together with the other projects. Many system adjustments are still prompted by changing laws and regulations. The development of the joint data warehouse, as part of the programme to improve data quality, requires a lot of capacity. As in 2016, the internal capacity of the IT department will be expanded in 2017 in order to handle the large number of projects. If necessary, external expertise and capacity will be used.

Since 1 January 2016, BNG Bank and Centric FSS have been collaborating under new arrangements for the outsourcing of IT activities.

OUTSOURCING RISK

BNG Bank's most important outsourcing contract relates to the outsourcing of the payment transaction process and a large portion of the bank's IT activities to Centric FSS. These activities include payment services and current account administration, the computing centre and workstation management. BNG Bank's activities are linked to those carried out by Centric FSS via Service Level Agreements (SLAs) and the bank's internal demand organisation. IT support is crucial for a bank, which is why BNG Bank has a procedure in place for the proper monitoring and evaluation of the service provider's services. The ISAE 3402 statement annually issued by Centric FSS is part of this procedure. The IAD's periodical audits of Centric FSS provide extra assurance. The bank also structurally monitors the financial situation of Centric FSS and draws up contingency plans.

Other services, such as the management of the building and installations, catering, cleaning and landscaping, have also been outsourced, with satisfactory results.

INTEGRITY RISK

Integrity is a key part of the operations. The BNG Bank Company Code (see website), featuring the core values reliable, sustainable and professional, serves as a guideline for all actions undertaken by BNG Bank and its employees.

New employees are assessed on their integrity when they take up their duties, irrespective of whether they were recruited internally or externally. The issue of integrity is highlighted among all staff on a regular basis. Current employees have all individually taken the banker's oath and endorsed the disciplinary regulations for banks. New employees, whether recruited internally or externally, individually take the banker's oath and endorse the disciplinary regulations for banks. When employees take the oath, the importance of ethical conduct is discussed with them.

The bank carries out a product approval process to ensure that its products serve the interests of its clients and do not involve any unacceptable risks for the clients and for the bank itself. The bank values acting with due care towards clients and other stakeholders over an exclusive focus on financial profit or other self-interests. The bank also expects its clients and other contacts to adhere to ethical standards and not to place the bank's reputation at risk. The bank has drawn up policy rules for this purpose, which are used as a basis for assessing new and existing clients and contacts.

Compliance with internal and external rules is regularly reviewed within the bank. The Compliance department periodically carries out an integrity risk analysis, which has not revealed any major integrity risks consistent with the bank's clients and activities.

LEGAL RISK

The bank has a specialist legal department whose tasks and responsibilities include setting out arrangements with clients and other parties in legally sound agreements. To this end, standard contracts and provisions have been drawn up, which are managed in an internal (contract) models library. Any deviation from these standard contracts is coordinated with the Legal Affairs, Tax and Compliance department (JFC).

The bank is working to automate the administration of contractual provisions in agreements with clients, with an intention to standardise the conditions and provisions as much as possible. An internal models library has been developed to this end, which is subject to continuous further development and updating. This guarantees the enforceability of contractual agreements as much as possible, and the standardisation of conditions will result in an operational process that involves as little manual intervention as possible.

Where applicable, the JFC department also seeks external assistance, for example in the event of complex (often syndicated) transactions and in cases requiring specialist legal knowledge.

As at year-end 2016, BNG Bank was involved in two ongoing legal proceedings. BNG Bank is the claimant in both cases. After assessing the disputes concerned, the bank does not expect that these proceedings will have any negative financial consequences. With regard to the dispute concerning HETA, legal proceedings were withdrawn after almost all creditors, including BNG Bank, accepted the second offer. The Austrian authorities have therefore repurchased the bonds issued by HETA and guaranteed by the federal state of Carinthia via an SPV on the basis of the Settlement Act.

Strategic risk

DEFINITIONS

Strategic risk is defined as the risk that strategic decisions of the bank could result, in the execution of those decisions, in losses and/or the chance of losses as a consequence of changes beyond the control of the institution or group in the areas of the bank's competitive position, stakeholders, reputation and business climate (including political climate). Strategic risk consists of the following aspects:

- Competitive risk is the risk that the bank's competitive and market position will be influenced by the activities, actions and/or decisions of new or existing competitors.
- Reputation risk is the risk that the bank's market position will deteriorate due to a negative perception of its image amongst stakeholders.
- Dependency risk is the risk that stakeholder influence and developments will result in a conflict of interests with the bank and/or affect the institution's financial position.
- Risks resulting from the business climate are risks due to environmental changes in terms of the economy, stock exchange climate, wage and/or purchasing power developments, broader society, politics and technology.

COMPETITION RISK

The relatively low credit margins characteristic of the market in which BNG Bank operates act as an obstacle to potential new entrants. Scale and efficiency are key to a profitable business model. Parties striving to maximise their profits will thus enter this market on a limited scale. The competition risk is still relatively limited, but has increased due to the fact that parties such as pension funds and insurers do enter this market on an irregular basis. Other parties are also interested in financing DBFMO projects.

REPUTATION RISK

BNG Bank is always looking for solutions that are in the client's interest. This is of vital importance for its reputation as a bank of and for the public sector. This is reflected not only in the bank offering products that its clients ask for, but especially in a certain reticence if it is not sufficiently clear that a particular product is in the clients' interest. The bank will stress this when it receives requests for financing arrangements which it considers unsuitable for the client concerned. This applies in particular to smaller organisations of which the bank has reason to believe that they lack the in-house expertise to manage the risks of the product in question. This is factored into the bank's product approval process.

Naturally, reputation risk also applies to the bank's other stakeholders, such as investors and shareholders. It often arises as a consequential risk if other risks are not properly controlled. Therefore, it makes up an integral part of all aspects of the bank's risk policy. Mitigation of the various risks thus indirectly safeguards the bank's reputation.

To maintain and emphasise its relevance, the bank wants to be able to offer its clients innovative forms of lending. The recently launched Energy Transition Fund is one example. Flexibility and a limited process time for product development are important factors in this regard. However, insufficient care during implementation can lead to problems that could harm the bank's reputation. The product approval process has been reviewed for this reason. The Management Board monitors correct functioning and weighs up the various interests involved.

The types of reputation risk are set out in the 2017 risk appetite statement and will form part of the associated monitoring.

DEPENDENCY RISK AND BUSINESS CLIMATE

At BNG Bank, dependency risk and political risk (business climate) are closely linked, because public authorities are both shareholders and clients. BNG Bank has a high dependency risk with respect to governmental developments. Due to public sector cuts in recent years, BNG Bank's balance sheet with regard to lending situates between marginal decline and stability.

The report entitled 'Nederlandse Financieringsinstelling voor Economische Ontwikkeling (NFEO)' published in 2016 calls for the bank to be incorporated in a new Dutch investment bank. The report recommended the formation of a lending institution with sufficient scope for action, with financing fully guaranteed by the government, through the merger of BNG Bank, NWB Bank, FMO and a number of schemes operated by the Ministry of Economic Affairs. The bank takes the view that it would be better to seek a solution to the bottlenecks found in the Dutch funding landscape amongst existing institutions. A great deal could be achieved in the relatively short term through the more effective use of the existing guarantee and incentive instruments. It has since become clear that the government has opted to bundle existing schemes and the contributions from these schemes under a new investment fund: Invest-NL. The government's vision has no impact on BNG Bank's position.

Another potential threat is still the EU's Bank Recovery and Resolution Directive (BRRD), which poses the question of whether the shareholders are permitted to assist BNG Bank in the event of acute problems, without rising discussions on state aid or a bail-in. The details of the directive governing the MREL requirement (Minimum Requirement for own funds and Eligible Liabilities) can also affect how the bank meets its funding needs. Responsibility for settlement plans for significant banks was transferred to the SRB as of 1 January 2016, however this has not yet removed the uncertainty as to the precise form and interpretation of these bail-in regulations.

BNG Bank incidentally invested modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects in its capacity as lender. Market conditions in this sector have been difficult since the 2008 crisis, and activities are directed primarily at managing and phasing out the existing portfolio. New projects are only considered if the risk profile is considerably safer than before.

Capital and solvency

Regulatory requirements under the Capital Requirements Directive IV (CRD IV), the associated Capital Requirements Regulation (CRR) and the Bank Recovery and Resolution Directive (BRRD) were also developed further in 2016. In the context of capital and solvency ratios, developments in the leverage ratio and the MREL requirement are two important subjects for BNG Bank.

The MREL requirement is related to the BRRD and is designed to ensure that banks with 'bail-inable' capital increase their loss absorption capacity. Regulation on the adoption of this MREL requirement and the method for setting an MREL ratio were developed further in 2016. For instance, the EC published the delegated act for setting the MREL requirements on 23 May 2016, and will conduct a review of the MREL at year-end 2016 based on the mandate established under Article 45 of the BRRD. Given the potential impact on how banks need to approach their capital composition, these rules may also have consequences for BNG Bank, depending on the final regulations and their interpretation by the Single Resolution Board. It is unclear how this will affect BNG Bank; however, the developments will be monitored further in 2017.

One of the things introduced by CRD IV/CRR is a leverage ratio, which is the ratio between the total non-risk-weighted balance sheet and the bank's Tier 1 capital. Given the fact that a very large part of BNG Bank's balance sheet consists of 0% credit risk-weighted assets, the leverage ratio is more restrictive than the risk-weighted solvency ratio. The EC is expected to reach a final decision on the minimum required level for this ratio in 2017. The decision will be based on the recommendation issued on the leverage ratio (EBA Leverage ratio report) in August 2016 by the European Banking Association (EBA). In this report, EBA offers advice on what it deems the desired leverage ratio as well as the options for differentiation of the leverage ratio requirements according to different business models. The report provides scope for an adapted, less strict, leverage ratio requirement for BNG Bank, however the ultimate impact of the recommendation on the final regulations has not yet been decided. As a precaution, the bank's capital planning is therefore based on the generally applicable percentage of 3% communicated to date and recommended in the report, effective from January 2018.

The obligation to meet a leverage ratio in the future has meant among other things that, beginning in the 2011 financial year, the dividend was reduced from a payout percentage of 50% to 25%. The possibility of attracting hybrid capital that qualifies as (additional) Tier 1 capital is also part of the migration plan. The preparations for this were completed in 2015, and EUR 424 million was raised in additional Tier 1 capital. A further EUR 309 million was raised in additional Tier 1 capital in 2016, meaning that the bank's capital position is developing according to plan. Further measures are not anticipated for the time being, but naturally depend on balance sheet developments and any changes in the relevant regulations.

In order to maintain its good credit ratings, BNG Bank has for many years applied a self-imposed Tier 1 ratio of 18%, which is also more than sufficient to satisfy the requirements of CRD IV. The bank considers this ratio to be amply sufficient in relation to its risk profile. However, given its desire to maintain a high Tier 1 capital ratio relative to the other banks, BNG Bank is aiming for a ratio that is higher than 18%. As at 31 December 2016, the Tier 1 ratio was 32% (2015: 27%) and the CET1 ratio 26% (2015: 23%).

The required CET1 ratio for BNG Bank for 2017 is 8.5%. This consists of an SREP requirement of 6.75%, a phased-in sytemic risk buffer (SRB) of 0.5% and a phased-in capital conservation buffer (CCB) of 1.25%. The SRB is expected to increase by 0.25% each year to 1% in 2019. The CCB will increase by 0.625% each year to 2.5% in 2019. BNG Bank amply meets the requirements.

Under CRD IV/CRR, BNG Bank employs the 'Standardised Approach' (SA) for credit risk and market risk to determine the risk-weighted assets. In calculating the counterparty credit risk of derivatives transactions, the bank applies the 'Mark-to-Market' method. It applies the 'Standardised Approach' for operational risk as well. Based on the CRR, BNG Bank has obtained the regulator's permission to apply the specific prudential regulations at consolidated level, rather than on an individual basis (‘solo waiver’). Because BNG Bank does not have a trading book, the interest rate risk does not affect the capital charge. Only temporary small foreign exchange positions for which it is not efficient to hedge the risks may result in a limited capital charge in the interim. These positions are measured on a daily basis and have no material effect on the Tier 1 ratio.

The overview below presents the ratios as at 31 December 2016 based on the principles of CRD IV/CRR. The value present is shown for both the transitional situation and the final situation after full phasing-in (in 2018).

SOLVENCY

	31/12/2016		31/12/2015	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
CRD IV/CRR (TRANSITIONAL)				
Tier 1 capital	1,094	3,933	1,024	3,412
Total capital ratio	8.875%	32%	8%	27%
– Pillar 1	8%		8%	
– Combined Buffer Requirement	0.875%		N/A	
Common Equity Tier 1 capital	555	3,200	576	2,988
Common Equity Tier 1 ratio	5.375%	26%	4.5%	23%
– Pillar 1	4.5%		4.5%	
– Combined Buffer Requirement	0.875%		N/A	
CRD IV/CRR (FULLY PHASED IN)				
Tier 1 capital	1,418	4,034	1,024	3,603
Total capital ratio	11.5%	33%	8%	28%
– Pillar 1	8%		8%	
– Combined Buffer Requirement	3.5%		N/A	
Common Equity Tier 1 capital	555	3,301	576	3,180
Common Equity Tier 1 ratio	8%	27%	8%	25%
– Pillar 1	4.5%		4.5%	
– Combined Buffer Requirement	3.5%		3.5%	

REGULATORY CAPITAL

The two tables below show the structure of the regulatory capital. The tables present the capital in the transitional situation and the capital after full phasing-in (2018).

	31/12/2016		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	2,961	2,961	2,961
Unappropriated profit			369
Accumulated other comprehensive income			
– Cash flow hedge reserve	3	3	3
– Revaluation reserve	275	275	275
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**3,384**	**3,384**	**3,753**

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	31/12/2016		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	−3	−3	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	−19	−19	
– Own credit risk for Financial liabilities at fair value through the income statement	−24	−24	
– Value adjustments due to the prudential valuation requirements	−8	−8	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	−29	−29	
Transitional adjustments to CET1 capital:			
– Unrealised losses in the revaluation reserve	25	–	
– Unrealised gains in the revaluation reserve	−126	–	
CET1 CAPITAL	**3,200**	**3,301**	
Additional Tier 1 capital:	733	733	733
TIER 1 CAPITAL	**3,933**	**4,034**	
TOTAL EQUITY			**4,486**

	31/12/2015		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	2,797	2,797	2,797
Unappropriated profit			226
Accumulated other comprehensive income			
– Cash flow hedge reserve	251	251	251
– Revaluation reserve	320	320	320
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**3,513**	**3,513**	**3,739**

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	31/12/2015		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	−251	−251	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	−12	−12	
– Value adjustments due to the prudential valuation requirements	−12	−12	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	−59	−59	
Transitional adjustments to CET1 capital:			
– Unrealised losses in the revaluation reserve	36	–	
– Unrealised gains in the revaluation reserve	−227	–	
CET1 CAPITAL	**2,988**	**3,179**	
Additional Tier 1 capital:	424	424	424
TIER 1 CAPITAL	**3,412**	**3,603**	
TOTAL EQUITY			**4,163**

PRUDENTIAL FILTERS

BNG Bank applies the following prudential filters to the CET1 capital:

- The cash flow hedge reserve is eliminated in its entirety.
- The benefits arising from own credit risk in derivatives transactions are eliminated in their entirety.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated in their entirety.
- Due to the regulations on prudent valuation, an adjustment is calculated in relation to the balance sheet valuation of assets and liabilities that are carried at fair value.

DEDUCTIBLE ITEMS

BNG Bank opts to reduce the CET1 capital by two securitisation positions that are eligible for 1250% solvency weighting.

ADJUSTMENTS IN CRD IV/CRR TRANSITION PHASE

The portion of unrealised losses from the revaluation reserve for Financial assets available-for-sale included in the CET1 capital was 60% in 2016 (2015: 40%).
The portion of unrealised gains from the revaluation reserve for Financial assets available-for-sale included in the CET1 capital was 60% in 2016 (2015: 40%).

ADDITIONAL TIER 1 CAPITAL

For a clarification, please refer to note 20 of the Notes to items of the consolidated financial statements.

CAPITALISATION POLICY

The primary aim of capital management is to ensure that the internal objectives – taking into account BNG Bank's strategy – and external capital requirements are being and will be met. The regulations have seen major changes in recent years, designed to strengthen the banks' capital position in the wake of the financial crisis. In response to this, the bank decided to monitor its capital position more closely and to adopt a more pro-active approach to capital management. This resulted in the formation of the Capital Management department in 2016.

The capitalisation policy is incorporated in the so-called Internal Capital Adequacy Assessment Process (ICAAP). Key to this policy is the capital management plan, which determines the level and composition of the capital based on the risks to be insured by the capital. In determining the required capital, a number of stress scenarios are taken into account which could affect the capital.

The required capital is determined within the Pillar I and Pillar II restrictions of the Basel III Capital Accord, which relate to the regulatory capital and economic capital, respectively. Furthermore, the standards formulated in the bank's risk appetite serve as upper limits to the deployment of capital.

A capital allocation is defined for each risk type. The actual risks are not permitted to exceed the allocated amounts. The capital required for credit risk under Pillar I is determined on the basis of solvency weighting. The capital required for credit risk under Pillar II is determined using a model that calculates any expected and unexpected loss and which employs a confidence interval of 99.9% and a time horizon of one year. Due to the limited number of client groups, the bank has to rely on expert models. Another reason for choosing this high confidence interval is the uncertainty inherent in the expert models the bank must use given its limited number of client groups. Scenarios are also employed for market risk and operational risk.

A confrontation between allocated capital and the actual use of capital occurs each month for Pillar I and Pillar II for each risk type. No capital limits were exceeded in 2016.

BNG Bank's Tier 1 ratio largely depends on developments in the regulations. The so-called zero weighting of Dutch public authorities in terms of solvency is a particularly important pillar under the bank's capital ratios. Debate in the context of Basel as to whether lending to or guaranteed by public authorities can remain solvency-free in due course has not led to any specific changes to date. BNG Bank currently expects to be able to continue to amply meet all minimum requirements in the future.

Other notes

Fair value of financial instruments

The fair value is the transfer price (not adjusted for transaction costs) which, regardless of the intention or capability, would be received if an asset was sold or the price which would be paid if a liability was transferred in an orderly transaction between market participants at the measurement date under the current market conditions. The assumption is that the valuation is viewed from the perspective of market participants, whereby only the specific characteristics and limitations of the financial instrument are taken into consideration. A distinction is made between three levels of fair value, with the nature of the input factors and their significance for the total valuation being decisive for the correct classification in the hierarchy.

FAIR VALUE HIERARCHY

- **LEVEL 1**: valuation based on (unadjusted) quoted market prices of the instrument itself or, if unavailable, of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices reflect current and regularly occurring arm's length market transactions. The quoted market prices for financial assets and liabilities are based on mid-market prices.
- **LEVEL 2**: valuation based on a valuation technique using directly/indirectly observable market data other than quoted market prices as used at Level 1. This category includes instruments with a valuation that uses quoted prices in an active market for comparable instruments, quoted prices for identical or comparable instruments in markets deemed to be less than active or other valuation techniques whereby all significant input variables are directly or indirectly observable from market data.

- **LEVEL 3**: valuation based on valuation techniques that make significant use of input data which are not publicly observable in the market. This category includes instruments with a valuation technique that uses input variables that are not based on observable market data and whereby the non-observable market data significantly influence the valuation of the instrument. This category also includes the instruments valued in accordance with the quoted prices for comparable instruments, whereby significant not publicly observable changes or presumptions are necessary for expressing the differences between the instruments.

Where possible, BNG Bank uses quoted market prices (Level 1). Quoted market prices are based on bid prices (for financial assets) and ask prices (for financial liabilities). Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset. BNG Bank uses mid-market prices on the reporting date for valuation purposes.

In many cases, the bank is reliant on theoretical valuations (Level 2) in respect of its debtors. In such cases, the fair value is determined on the basis of valuation models and techniques that are customarily used in the financial sector. These are mostly models based on net present value calculations and option pricing models. The input for these models is based on direct or indirect objectively observable input data such as market prices, forward pricing, market-based yield curves for discounting, correlations, volatilities, cross-currency basis spreads, counterparty creditworthiness and other factors, estimates and assumptions which market parties would use to determine the price. The bank uses so-called spread curves to determine the fair value of financial instruments that involve credit and liquidity risk and for which a theoretical valuation is required. These spread curves are constructed on the basis of the relevant interest rate curve and a spread for credit and liquidity risk. The credit risk spread is dependent on the creditworthiness of the debtor, taking into account the collateral received, guarantees and maturities. The liquidity risk spread depends on the degree of marketability of the instrument. The risk profiles of individual clients and financial instruments are assessed at least once per quarter. If necessary, the credit-risk spread will be adjusted.

In a limited number of cases, the valuation of the bank's financial instruments is based to a significant extent on input data and management estimates which are not publicly observable in the market (Level 3).

With regard to interest rate swaps whereby the bank does not have an agreement with clients subject to solvency requirements for the daily exchange of collateral, as of 2012 a Credit Valuation Adjustment (CVA) for the counterparty's credit risk is applied in the calculation of the fair value. As a consequence of the changed market practice, several improvements were implemented in 2014. In determining the fair value of derivative transactions, the CVA is applied to all derivative transactions with all clients and financial counterparties with which the bank does not have an agreement for the daily exchange of collateral. The CVA is also applied, in determining the fair value, to all derivative transactions with clients or counterparties with which the bank has an agreement for the daily exchange of collateral which is not regarded as sufficient. The bank also applies adjustments to its own credit risk, the Debit Valuation Adjustment (DVA), in the fair value of derivatives transactions with clients and financial counterparties with which the bank does not have an agreement, or no sufficiently robust agreement, for the daily exchange of collateral.

As of 1 Januari 2016, the bank started to apply a spread over swap curve for its own credit risk: the 'Own Credit Adjustment (OCA)'. The OCA only relates to instruments included under Financial liabilities at fair value through the income statement. The total impact was EUR 24 million positive in equity net of deferred taxes, of which EUR 30 million positive is associated with the balance as at 1 January 2016 and EUR 6 million negative over 2016.

Insofar as financial instruments have the character of a forward contract, official forward prices are used, including forward yield curves and forward exchange rates. In the case of complex instruments, the constituent parts of the instrument are measured separately on the basis of the above techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts. BNG Bank applies only recurring fair values, which are measured on an ongoing basis for processing in the financial position at the end of each reporting period.

	31/12/2016		31/12/2015	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET-VALUE	FAIR VALUE
Cash and balances held with central banks	6,417	6,417	3,175	3,175
Amounts due from banks	11,795	11,800	10,540	10,551
Financial assets at fair value through the income statement	2,350	2,350	2,884	2,884
Derivatives	15,412	15,412	16,370	16,370
Financial assets available-for-sale	15,437	15,437	13,459	13,459
Loans and advances	87,576	103,920	89,366	103,800
TOTAL FINANCIAL ASSETS	**138,987**	**155,336**	**135,794**	**150,239**
Amounts due to banks	3,530	3,529	2,968	2,968
Financial assets at fair value through the income statement	1,190	1,190	1,788	1,788
Derivatives	24,780	24,780	23,261	23,261
Debt securities	112,180	113,085	110,123	110,012
Funds entrusted	7,557	7,845	6,869	7,152
Subordinated debts	31	47	31	47
TOTAL FINANCIAL LIABILITIES	**149,268**	**150,476**	**145,040**	**145,228**

When effecting a transaction, the fair value hierarchy is determined on the basis of the relevant characteristics of the valuation, with the nature of the input factors and their significance for the total valuation being decisive for the classification. The classification takes place on the basis of the lowest input level that is significant for the fair value in the transaction as a whole. Significance is assessed by determining the influence of non-observable input factors on the outcome of the total valuation, with due regard for the range of possible alternative assumptions concerning those non-observable input factors. Each quarter, the classification of each transaction is assessed and adjusted where necessary.

The table below provides an overview of the fair value hierarchy for transactions recognised at fair value.

				31/12/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	338	1,358	654	2,350
Derivatives	–	15,386	26	15,412
Financial assets available-for-sale	11,847	3,565	25	15,437
TOTAL FINANCIAL ASSETS	**12,185**	**20,309**	**705**	**33,199**
Financial liabilities at fair value through the income statement	–	1,190	–	1,190
Derivatives	–	24,749	31	24,780
TOTAL FINANCIAL LIABILITIES	**–**	**25,939**	**31**	**25,970**

	31/12/2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	335	1,923	626	2,884
Derivatives	–	16,335	35	16,370
Financial assets available-for-sale	11,124	2,267	68	13,459
TOTAL FINANCIAL ASSETS	**11,459**	**20,525**	**729**	**32,713**
Financial liabilities at fair value through the income statement	–	1,788	–	1,788
Derivatives	–	23,217	44	23,261
TOTAL FINANCIAL LIABILITIES	**–**	**25,005**	**44**	**25,049**

SIGNIFICANT MOVEMENTS IN FAIR VALUE LEVEL 3 ITEMS

				2016
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (STATED AS ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (STATED AS LIABILITIES)
OPENING BALANCE	**626**	**35**	**68**	**44**
Results through the income statement:				
– Interest result	9	4	0	6
– Unrealised result on financial transactions	85	−13	0	−17
– Realised result on financial transactions	0	0	−4	−1
	94	−9	−4	−12
– Unrealised value adjustments via the revaluation reserve	–	–	5	–
– Investments	0	0	0	0
– Cash flows	−66	0	0	−1
– Transferred to Level 2	0	0	−44	0
– Transferred from Level 2	0	0	0	0
– Derivatives transferred from assets to liabilities and vice versa	–	0	–	0
CLOSING BALANCE	**654**	**26**	**25**	**31**

				2015
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (STATED AS ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (STATED AS LIABILITIES)
OPENING BALANCE	**844**	**40**	**66**	**51**
Results through the income statement				
– Interest result	9	2	0	3
– Unrealised result on financial transactions	−6	−9	0	−10
– Realised result on financial transactions	3	0	0	0
	6	−7	0	−7
– Unrealised value adjustments via the revaluation reserve	–	–	2	0
– Investments	0	2	0	0
– Cash flows	−57	0	0	0
– Transferred to Level 2	−167	0	0	0
– Transferred from Level 2	0	0	0	0
– Derivatives transferred from assets to liabilities and vice versa	–	0	–	0
CLOSING BALANCE	**626**	**35**	**68**	**44**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded in the market. Because there is no such trade, the observable market data available for similar securities is not fully representative of the current fair value. Therefore, the fair value of these transactions is determined on the basis of public market data that is adjusted using significant input variables not publicly observable in the market. A total of EUR 44 million was reclassified from Level 3 to Level 2 in 2016 in relation to a transaction with a Portuguese counterparty recorded under the Financial assets available-for-sale item.

INPUT VARIABLES WHICH ARE NOT PUBLICLY OBSERVABLE IN THE MARKET

In determining the fair value of Level 3 assets and liabilities, BNG Bank applies the following significant input variables not publicly observable in the market.

FINANCIAL ASSETS AT FAIR VALUE

For the purpose of determining the spreads of interest-bearing securities and loans with an inflationary component and a monoline guarantee, the following input variables not publicly observable in the market are used:

- recovery rates for the relevant debtors (40%) and the relevant monoline insurers (30%);
- a correlation factor between the debtor and the monoline insurer (20%).

These input variables remained unchanged compared to 2015. Due to the absence of public market data, specific liquidity risk spreads were applied in determining the individual spread curves for the purpose of valuing an RMBS transaction with an NHG guarantee and a Portuguese debtor.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

In determining the market value of two participations in an infrastructure fund, the price was established on the basis of the fund's net asset value.

SENSITIVITY OF THE FAIR VALUE OF FAIR VALUE LEVEL 3 ASSETS AND LIABILITIES TO A MOVEMENT IN SIGNIFICANT INPUT FACTORS

In the sensitivity analysis, the components interest, inflation, and liquidity and credit spreads are presented in both separate and correlated figures. The following table indicates the sensitivity of Level 3 assets in the event of a separate absolute parallel movement in these significant input factors. Despite the fact that there are no direct dependencies between these input factors, the total sensitivity of the instruments in the event of a simultaneous shift in these three input factors is also presented.

IMPACT ON BALANCE SHEET VALUE OF A MOVEMENT IN RELEVANT INPUT FACTORS

	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (STATED AS LIABILITIES)		TOTAL	
BALANCE SHEET VALUE	654	626	26	35	25	68	−31	−44	674	685
INTEREST RATE										
+10 basis points	−8	−7	−4	−1	0	0	0	0	−12	−8
−10 basis points	8	7	4	1	0	0	0	0	12	8
+100 basis points	−71	−57	−41	−4	0	0	−2	−6	−114	−67
−100 basis points	98	77	44	26	0	0	1	1	143	104

Continued on next page

Continuation of previous page	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (STATED AS LIABILITIES)		TOTAL	
INFLATION RATE										
+10 basis points	8	7	0	0	0	0	0	0	8	7
−10 basis points	−8	−6	0	0	0	0	0	0	−8	−6
+100 basis points	94	77	0	0	0	0	0	0	94	77
−100 basis points	−70	−56	0	0	0	0	0	0	−70	−56
CREDIT AND LIQUIDITY RISK SPREADS										
+10 basis points	−10	−9	2	5	0	0	2	0	−6	−4
−10 basis points	10	9	−2	−5	0	0	−2	0	6	4
+100 basis points	−89	−75	34	55	0	−3	10	1	−45	−22
−100 basis points	118	98	−15	−33	0	3	−30	−7	73	61
TOTAL SIGNIFICANT INPUT FACTORS										
+10 basis points	−10	−8	−2	4	0	0	2	0	−10	−4
−10 basis points	11	9	2	−3	0	0	−2	−1	11	5
+100 basis points	−89	−74	−9	52	0	−2	9	1	−89	−23
−100 basis points	124	101	29	13	0	3	−29	−19	124	98

BNG Bank hedges nearly all its interest rate risk through swaps. The fair value adjustments to interest-bearing securities arising from a change in the interest curve alone therefore, on balance, have a limited impact on the bank's result and equity. By the end of the maturity of the assets and the associated swaps, these changes in market value will approach zero, given that all parties have met their payment obligations. On the other hand, interest rate shifts caused by a change in credit or liquidity risk spreads do have a direct impact on the result and the equity.

A large part of the assets in Level 3 (EUR 367 million) consists of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. The default risk of these transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees were set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 76 million at year-end 2016 (year-end 2015: EUR 33 million negative). The sensitivity of these instruments in the Financial assets at fair value through the income statement item increased in 2016. The increase in the inflation rate in the UK in particular meant that the exposure for expected future cash flows increased and therefore became more sensitive to fluctuations in relevant risk factors.

Under the Financial assets available-for-sale item, a Portuguese transaction with a balance sheet value of EUR 44 million was moved from Level 3 to Level 2 in 2016. This instrument is measured based on input variables publicly observable in the market for a similar instrument. The sensitivity of the remaining fair value Level 3 instruments under this balance sheet item is not significant.

The Derivatives (stated as liabilities) item features a Level 3 separated option linked to the French government interest rate. This option is hedged with a Level 3 swap including an option recognised under the Derivatives (stated as assets) item. The swap is sensitive to the euro swap rate and the French government interest rate, and has become more sensitive to fluctuations as a result of the fall in interest curves in 2016.

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

The table below provides an overview of the way in which the fair value is determined for transactions recognised at amortised cost in the balance sheet on the basis of the hierarchical classification referred to above.

				31/12/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	6,417	–	–	6,417
Amounts due from banks	248	11,541	11	11,800
Loans and advances	1,542	94,950	7,428	103,920
TOTAL FINANCIAL ASSETS	**8,207**	**106,491**	**7,439**	**122,137**
Amounts due to banks	–	3,529	–	3,529
Debt securities	83,388	28,435	1,262	113,085
Funds entrusted	1,955	78	5,812	7,845
Subordinated debts	–	–	47	47
TOTAL FINANCIAL LIABILITIES	**85,343**	**32,042**	**7,121**	**124,506**

				31/12/2015
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	3,175	–	–	3,175
Amounts due from banks	381	10,158	12	10,551
Loans and advances	1,827	94,513	7,460	103,800
TOTAL FINANCIAL ASSETS	**5,383**	**104,671**	**7,472**	**117,526**
Amounts due to banks	2	2,966	–	2,968
Debt securities	81,343	27,327	1,342	110,012
Funds entrusted	2,280	75	4,797	7,152
Subordinated debts	–	–	47	47
TOTAL FINANCIAL LIABILITIES	**83,625**	**30,368**	**6,186**	**120,179**

The financial assets at amortised cost under Level 3 mainly relate to loans and advances subject to solvency requirements to BNG Bank's statutory market parties. These assets also include the fair value of the assets that have been reclassified under the balance sheet item Loans and advances since 2008, having previously been recognised under the balance sheet item Financial assets available-for-sale, to the extent revaluation is effected using data that are not publicly observable in the market. Loans and advances to statutory counterparties under government guarantees are included in Level 2, on account of the strong correlation with bonds issued by the Dutch State.

The financial liabilities at amortised cost under Level 1 mainly consist of tradeble benchmark bonds issued by BNG Bank (Debt securities item). Funds entrusted are classified under Level 3 (Debt securities and Funds entrusted item).

Hedging of risks with derivatives

BNG Bank applies economic hedging in order to mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is strictly adhered to and is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. For accounting purposes, BNG Bank processes this hedging relationship under IFRS by applying micro and portfolio fair value hedging, as well as cash flow hedging. The Accounting principles for the consolidated financial statements section describes the conditions that need to be met before these forms of hedge accounting can be applied.

Micro fair value hedging (MH) is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. This form of hedging is applied to nearly all debt securities issued. The foreign exchange and interest rate risks are hedged by means of derivatives, mainly (cross-currency) interest rate swaps. The issues are fully offset against the derivatives so that, on a net basis, the fixed coupons of the issues are converted into variable interest amounts in euros. Both the issues and the accompanying derivatives can contain structures, such as options, which are also fully offset. The revaluation effect of hedged MH transactions with regard to fair value hedging is accounted for in the same balance sheet item as the hedged items.

BNG Bank applies (micro) cash flow hedge accounting to virtually all long-term funding transactions in foreign currencies in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations. The basis swap spread is an important building block of the value of a cross-currency (interest rate) swap. Therefore, if seen as a separate financial instrument, the fair value of these swaps is influenced by the change in the basis swap spread. However, this change has no economic effect on the bank and it, in principle, never will, as the bank will generally retain the contracts until their maturity. With the exception of voluntary early redemption of funding in foreign currencies or an immediate and complete withdrawal from the banking business, there are no circumstances under which these negative revaluations can lead to a realised result. Nevertheless, the bank is obligated under IFRS to recognise the change in the instrument's fair value in its accounts. The effects of this accounting mismatch must be recognised in the income statement as value adjustments to derivatives. With the use of cash flow hedge accounting, the effective part of the cash flow hedge is recognised in a cash flow hedge reserve in equity. The interest results of both the hedging instrument and the hedged item are accounted for in the same period in the income statement.

In portfolio fair value hedging (PH), the interest rate risks of a group of transactions are hedged by means of a group of derivatives. The hedging relationship is constructed and controlled at an aggregate level, thus precluding relationships with individual transactions. Within BNG Bank, portfolio hedging, like micro hedging, has been highly effective in recent years. Any ineffectiveness that occurs is recognised in the income statement. The revaluation of hedged PH items is accounted for in the balance sheet item Value adjustments on loans in portfolio hedge accounting. In both types of hedge accounting, the derivatives in question are measured at fair value and included in the Derivatives items.

Although BNG Bank uses derivatives for economic hedging purposes, it is not possible in all cases to include these in a hedge accounting relationship, as permitted by IFRS. For the derivatives that are not involved in a hedge accounting relationship, in virtually all cases there is an economic hedged position which is also recognised at fair value through the income statement so that, in total, the volatility of the result due to interest rate and foreign exchange risks is limited.

The notional amounts of the derivatives are listed below, categorised by type of derivative.

	31/12/2016		31/12/2015	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
DERIVATIVES (STATED AS ASSETS)				
Interest rate swaps	69,055	7,613	65,062	7,563
Cross-currency swaps	42,406	7,139	44,608	8,541
FX swaps	13,141	648	10,769	252
Other derivatives	151	12	153	14
	124,753	**15,412**	**120,592**	**16,370**
DERIVATIVES (STATED AS LIABILITIES)				
Interest rate swaps	99,071	22,754	106,475	21,310
Cross-currency swaps	10,024	1,772	9,021	1,692
FX swaps	3,236	68	4,120	58
Other derivatives	2,542	186	2,847	201
	114,873	**24,780**	**122,463**	**23,261**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2016, this collateral amounted to EUR 1,776 million (2015: EUR 1,762 million), of which EUR 1,766 million in cash (2015: EUR 1,762 million) and no collateral in the form of interest-bearing securities (2015: EUR 0 million).

With regard to derivatives, BNG Bank provided EUR 11,795 million in collateral in 2016 (2015: EUR 10,065 million), of which EUR 11,541 million in cash (2015: EUR 10,041 million) and EUR 254 million in interest-bearing securities (2015: EUR 24 million).

Related parties

TRANSACTIONS WITH RELATED PARTIES

ENTITIES WITH CONTROL, JOINT CONTROL OR SIGNIFICANT INFLUENCE OVER BNG BANK

The State of the Netherlands owns 50% of the shares and voting rights of BNG Bank. As the other half of the shares is divided between a large number of shareholders, the State of the Netherlands has de facto control over BNG Bank. The holders of the hybrid capital do not fall within the definition of related parties (IAS 24.9), as individually they have no (joint) control or significant influence over BNG Bank. BNG Bank has direct exposure to the State of the Netherlands in the form of purchased, publicly tradable government securities. The bank also has a large portfolio of loans and advances with direct guarantees from the State, or with guarantees from the WSW (social housing) and WFZ (Healthcare) guarantee funds, for which the State of the Netherlands acts as a backstop. In all cases, this concerns private lending.

SUBSIDIARIES

This relates to the BNG Bank subsidiaries Hypotheekbank voor Overheidspersoneel and BNG Gebiedsontwikkeling included in the consolidation. BNG Bank has intercompany transactions with these parties, consist of the issue of private loans and advances, credit balances held in current accounts and off-balance sheet commitments. All of these intercompany transactions are eliminated from the figures in and notes to the consolidated financial statements.

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ASSOCIATES, JOINT VENTURES AND JOINT OPERATIONS

This relates to associates, as well as joint ventures and joint operations entered into by BNG Gebiedsontwikkeling. A list of these parties is provided in a separate note in these financial statements. Transactions with these contacts consist of loans and advances, credit balances held in current accounts and off-balance sheet commitments (the undrawn portions of credit facilities).

DIRECTORS OF THE BANK

This relates to the individual members of the Executive Board of BNG Bank. Loans are granted to individual members of the Executive Board under BNG Bank's standard staff terms and conditions.

BNG Bank has not granted any individual significant transactions with any related parties. Intercompany transactions (except loans to individual directors) are therefore included in the table below at an aggregate level. No incurred loss provision was required for loans granted to members of the Executive Board. No sums were remitted by the bank.

	31/12/2016	31/12/2015
STATE OF THE NETHERLANDS		
Direct exposure in the form of purchased government securities	2,313	2,249
Lending with direct guarantees from the State	702	683
Lending with indirect guarantees from the State (WSW/WFZ)	39,638	40,536
SUBSIDIARIES		
Lending to subsidiaries	171	200
Credit balances held by subsidiaries	7	9
Off-balance sheet commitments to subsidiaries	7	19
ASSOCIATES, JOINT VENTURES AND JOINT OPERATIONS		
Lending to associates, joint ventures and joint operations	171	138
Credit balances held by associates, joint ventures and joint operations	15	2
Off-balance sheet commitments to associates, joint ventures and joint operations	40	39
LOANS GRANTED TO DIRECTORS		
Mr C. van Eykelenburg		
– amount in euros	698,816	701,278
– average interest rate (after staff mortgage discount)	4.3%	4.3%
Mr O. Labe		
– amount in euros	362,499	385,741
– average interest rate (after staff mortgage discount)	4.2%	4.3%

BNG BANK'S PRINCIPAL DECISION-MAKING BODIES

The most important decisions and acts of management are taken and carried out by the Executive Board. The policy pursued is assessed and supervised by the Supervisory Board.

REMUNERATION

BNG Bank's remuneration policy consists of fixed and variable remuneration components. The total remuneration granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 5 million in 2016 (2015: EUR 6 million). The Identified Staff consisted of 30 individuals in 2016 (2015: 28). In the case of six of these individuals (2015: nine) 50% of the variable remuneration was conditional. Following reassessment, this portion will be paid after three years unless the achievement of the associated targets is found to have jeopardised BNG Bank's long-term continuity. Since 2015, the variable remuneration component has been subject to a maximum of 20% of the fixed salary for all bank employees. The total variable remuneration awarded for 2016 was EUR 1 million (2015: EUR 1 million). No employee received remuneration exceeding EUR 1 million in 2016 (2015: none).

In addition, the bank pays a monthly employer's pension contribution. Since 1 January 2015, pension accrual over salary in excess of EUR 100,000 is no longer possible under the current ABP pension plan. This means that pension accrual is capped at a pensionable income of EUR 100,000. As a consequence of this cap for tax purposes and the lower pension accrual, BNG Bank decided to supplement the remuneration for the employees concerned who were in the bank's employment on 1 January 2015 with the employer's pension contribution in 2015.

REMUNERATION OF THE EXECUTIVE BOARD

The remuneration of the Executive Board is based on the principles formulated in the Remuneration Policy, the highlights of which are included in the Report of the Supervisory Board. The complete Remuneration Policy is published on bngbank.nl. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the general Collective Labour Agreement for the banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

REMUNERATION AWARDED TO EXECUTIVE BOARD MEMBERS

(amounts in thousands of euros)

	2016	2015	2016	2015	2016	2015	2016	2015
	FIXED REMUNERATION		VARIABLE REMUNERATION*		COMPENSATION FOR PENSION ACCRUAL OVER SALARY >100K		PENSION CONTRIBUTIONS	
C. van Eykelenburg	456	452	40	54	113	113	24	26
O.J. Labe (from 1 May 2015)	320	229	–	–	29	19	20	14
J.J.A. Leenaars (until 1 May 2015)	–	133	–	12	–	89	–	8
J.C. Reichardt	362	359	32	36	35	35	21	23
TOTAL	**1,138**	**1,173**	**72**	**102**	**177**	**256**	**65**	**71**

* This is one half of the variable remuneration. The other half of the variable remuneration is awarded conditionally and paid out in three years' time, provided the achievement of the associated targets has not jeopardised BNG Bank's long-term continuity. Assigned – as yet unpaid – variable remuneration can also be adjusted on the grounds of (incorrect) financial information, or unethical or non-compliant behaviour.

DEFERRED VARIABLE REMUNERATION

(amounts in thousands of euros)

	2016	2015	2014	2013*
C. van Eykelenburg	40	54	32	52
O.J. Labe (from 1 May 2015)	–	–	–	–
J.J.A. Leenaars (until 1 May 2015)	–	12	24	39
J.C. Reichardt	32	36	25	41
TOTAL	**72**	**102**	**81**	**132**

* The deferred conditional variable remuneration for 2013 will be paid in March 2017. The Supervisory Board has determined that the achievement of the quantitative and qualitative targets formulated in 2013 did not harm the continuity of the bank.

The remuneration awarded in the reporting period is the remuneration which has been recognised as an expense in full in the income statement. The income statement for 2016 includes EUR 1 million (2015: EUR 2 million) in remuneration and pension costs. The total short-term remuneration comprises the fixed remuneration, the variable remuneration and the compensation for pension accrual over salary in excess of EUR 100,000.

The variable remuneration for 2016 has been capped at 20% (2015: 20%) of the defined components of the fixed remuneration. The award of the variable remuneration depends on the degree to which the objectives set by the Supervisory Board have been achieved. Following the Selection and Appointment Committee's advice, the Supervisory Board determined the degree to which the 2016 variable remuneration targets were met by the Executive Board members. Detailed information on this is included in the report of the Supervisory Board to the shareholders. The achievement of the 2016 variable remuneration targets resulted in an allowance of 88.5% of the maximum variable remuneration (2015: 100%). The Executive Board members received an allowance for business expenses of EUR 3,900 in 2016 (2015: EUR 3,900). This allowance will also not be adjusted in 2017.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was amended by the Extraordinary General Meeting of Shareholders in 2016, effective from 1 January 2017. The total remuneration of the Supervisory Board will rise by 2% as a result of the change. This percentage is in line with increases under the Collective Labour Agreement for the Banking Industry in 2015 and 2016. The remuneration of the Supervisory Board can rise by the same percentage as the increases under the Collective Labour Agreement from 2017. The Supervisory Board's committee structure is also changing with effect from 1 January 2017. The Market Strategy Committee will be dissolved and the Audit & Risk Committee will be divided into an Audit Committee and a Risk Committee. The remuneration policy has been amended accordingly. The policy is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chair of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,000 (2015: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit & Risk Committee, Market Strategy Committee) and EUR 250 (Remuneration Committee, Selection and Appointment Committee), respectively. Former Supervisory Board members received no remuneration.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

(amounts in thousands of euros)*

	2016	2015
Ms M. Sint, Chair	42	34
J.J. Nooitgedagt, Vice-Chair and Secretary	29	29
C.J. Beuving	35	33
L.M.M. Bolsius	26	26
T.J.F.M. Bovens	26	26
J.B.S. Conijn	26	–
Ms S.M. Dekker	–	11
W.M. van den Goorbergh	–	12
Ms P.H.M. Hofsté	29	29
Ms J. Kriens	32	30
H.O.C.R. Ruding	–	33
J.C.M. van Rutte	29	5
TOTAL	**274**	**268**

* Including additional payments and excluding expense allowances and VAT.

Off-balance sheet commitments

CONTINGENT LIABILITIES

This includes all commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. To a limited extent, these guarantees are covered by a counter guarantee from public authorities. These are mainly Letters of Credit with a remaining contractual maturity of more than five years, which the bank has issued on behalf of clients in the public utilities sector. BNG Bank records liabilities at the underlying principal amount that would need to be paid in the event of the borrower defaulting.

	31/12/2016	31/12/2015
Contingent liabilities	105	99

REVOCABLE FACILITIES

This includes all commitments attributable to revocable current-account facilities.

	31/12/2016	31/12/2015
Revocable facilities	6,998	6,694

IRREVOCABLE FACILITIES

This includes all irrevocable commitments which can lead to the granting of loans and advances, and is divided as follows.

	31/12/2016	31/12/2015
Outline agreements concerning the undrawn part of credit facilities	4,566	4,384
Contracted loans and advances to be distributed in the future	2,337	2,031
TOTAL	**6,903**	**6,415**

According to contract, these contracted loans and advances will be distributed as follows:

	31/12/2016	31/12/2015
Up to 3 months	566	1,038
3 to 12 months	576	534
1 to 5 years	1,106	441
Over 5 years	89	18
TOTAL	**2,337**	**2,031**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 1.6% (2015: 1.2%). BNG Bank also states these obligations at the underlying, not yet recorded, principal amount.

Encumbered financial assets and liabilities

A part of the financial assets and liabilities is encumbered because these assets serve to secure and act as collateral for money market transactions and lending transactions. The following table shows the balance sheet values and the collateral values.

	31/12/2016		31/12/2015	
	NOMINAL VALUE	COLLATERAL VALUE	NOMINAL VALUE	COLLATERAL VALUE
TYPE OF COLLATERAL				
Collateral pledged to the central banks*	13,726	9,564	13,051	9,240
Securities provided in derivatives transactions	170	254	15	24
Cash deposited in relation to derivatives transactions	11,544	11,541	10,042	10,041
GIVEN AS COLLATERAL	**25,440**	**21,359**	**23,108**	**19,305**
Securities received in derivatives transactions	0	0	568	569
Cash received in relation to derivatives transactions	1,776	1,776	1,762	1,762
RECEIVED AS COLLATERAL	**1,776**	**1,776**	**2,330**	**2,331**
TOTAL	**23,664**	**19,583**	**20,778**	**16,974**

* Of the total value of loans provided as collateral to the central bank, only a limited part has actually been used as collateral by the central bank. At year-end 2016, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 306 million (year-end 2015: EUR 437 million).

Liability of board members

Members of the Executive and Supervisory Boards of the company are indemnified by the company against any personal liability, except in the case of deliberate intent or gross negligence. In addition, the company has taken out a directors' liability insurance policy for members of the Executive and Supervisory Boards and employees acting on the company's behalf as members of the Executive Board or Supervisory Board of one or more of the company's associates.

Events after the balance sheet date

There are no events subsequent to the balance sheet date to report that require adjustments to the figures or disclosure in the financial statements.

Long-term capitalisation and dividend policy

The capitalisation and dividend policy must be considered in light of the upcoming changes in prudential regulations that compel banks to retain more capital. The new regulations as well as the current capitalisation, relative to the agreed minimum standards, resulted in the standard dividend payout percentage being lowered from 50% to 25% as of the financial year 2011. The lowering of the standard payout percentage will apply, in principle, to the period until 2018, which is the year in which the bank will have to comply with the new minimum leverage ratio, but will be reconsidered as soon as clarity is obtained on the final shape and level of the leverage ratio, or in the unlikely event that expectations on growth and/or result are not met. In 2015, BNG Bank updated its plan for meeting the 3% minimum standard for the leverage ratio by the end of 2017 at the latest. This plan has also been made available to the supervisory authorities.

Proposed profit appropriation

Amounts in millions of euros

	2016	2015
NET PROFIT	**369**	**226**
APPROPRIATION OF PROFIT ATTRIBUTABLE TO THE BANK'S SHAREHOLDERS IS AS FOLLOWS:		
Appropriation to the Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	37	23
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	44	**30**
Appropriation to the Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	241	146
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	84	50
	325	**196**

The profit appropriation is based on the total net profit for 2016. The dividend distribution takes into account the EUR 4 million dividend (after tax) already paid on the hybrid capital in May 2016 charged to the Other reserves.

Associates and joint ventures

	31/12/2016	31/12/2015
ASSOCIATES		
Dataland BV, Rotterdam	30%	30%
A municipal non-profit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.		
Data B Mailservice Holding BV, Leek	45%	45%
Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.		

	31/12/2016	31/12/2015
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have equal voting rights, which means that no single party has control.		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV, Nederweert	50%	50%
Development and allocation of land for industrial estates		
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	50%	80%
Zenkeldamshoek Beheer BV, Goor	50%	50%
Development and allocation of land for industrial estates		
De Bulders Woningbouw CV	80%	80%
De Bulders Woningbouw BV	50%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij Westergo CV, Harlingen	44%	44%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		

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Continuation of previous page

	31/12/2016	31/12/2015
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Haventerrein Westzaan CV, Zaanstad	0%	30%
Bedrijventerrein Westzaan Noord CV, Zaanstad	0%	40%
Ontwikkelingsbedrijf Haventerrein Westzaan BV, Zaanstad	0%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij ‘Het Nieuwe Westland’ CV, The Hague	50%	50%
Ontwikkelingsmaatschappij ‘Het Nieuwe Westland’ BV, The Hague	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague	50%	50%
ROM-S Beheer BV (Schelluinen), The Hague	50%	50%
Development and allocation of land for industrial estates and car parking facilities		
Project Suijssenwaerde CV, The Hague	80%	80%
Project Suijssenwaerde Beheer BV, The Hague	50%	50%
Development and allocation of land for residential construction and recreational housing		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		

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Continuation of previous page

	31/12/2016	31/12/2015
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
SGN Bestaand Rijsenhout CV, The Hague	50%	50%
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	43%
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	50%
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	50%
SGN Advies BV Beheer, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Beheer BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		

Continued on next page

Continuation of previous page	31/12/2016	31/12/2015
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
Waalwaardwonen CV, Zaltbommel	50%	50%
Waalwaardwonen BV, Zaltbommel	50%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		

	31/12/2016	31/12/2015
JOINT OPERATIONS ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Vastgoedontwikkeling Handelskade Oude Tonge VOF, Oude Tonge	50%	50%
Construction of recreational housing and shops		

Summarised financial information

	2016	2015
ASSOCIATES		
Balance sheet value of investment (note 8)	3	2
VALUE OF THE SHARE IN:		
Total assets	4	5
Total liabilities	1	2
Income	8	12
Result from continued operations	1	1
Equity	3	3
Comprehensive income	3	4

	2016	2015
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Balance sheet value of investment (note 8)	43	45
VALUE OF THE SHARE IN:		
Total assets	115	97
Total liabilities	85	72
Income	15	6
Result from continued operations	–7	0
Equity	30	25
Comprehensive income	30	25

BNG Gebiedsontwikkeling (a wholly-owned BNG Bank subsidiary) invests in and develops land on its own account in collaboration with local authorities. This collaboration takes the form of a joint venture involving the use of limited partnerships. The risk incurred by BNG Bank is the total amount of capital invested in the participating interest, increased by further future payments obligations and retained profits. At year-end 2016, this risk amounted to EUR 44 million (2015: EUR 50 million), of which EUR 1 million related to future payment obligations (2015: EUR 5 million). The year under review showed a recovery in land sales due to the positive economic developments. The income from the land sales contributed to the improved financial position of the participating interests. Given the results in the recent past, however, additional impairments cannot be ruled out.

Involvement in non-consolidated structured entities

	2016				
	SECURITI-SATIONS	COVERED BONDS	BNG DEPOSITO FONDS	BNG KAPITAAL-MARKT BONDS	TOTAL
Scope	27,843	18,445	–	–	46,288
Involvement in entity (balance sheet value/size in %)	13%	3%	–	–	9%
BALANCE SHEET VALUE OF INTEREST/INVESTMENT:					
Financial assets at fair value through the income statement (from note 3)	233	245	–	–	478
Financial assets available-for-sale (from note 5)	2,493	–	–	–	2,493
Loans and advances (from note 6)	762	327	–	–	1,089
TOTAL BALANCE SHEET VALUE	**3,488**	**572**	**–**	**–**	**4,060**

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	2016				
	SECURITI-SATIONS	COVERED BONDS	BNG DEPOSITO FONDS	BNG KAPITAAL-MARKT BONDS	TOTAL
Maximum exposure	3,488	572	–	–	4,060
Ratio of balance sheet value vs maximum exposure	1	1	–	–	1
AMOUNT IN REVENUE PER TYPE:					
Fund return	N/A	N/A	–	–	–
Management fee	N/A	N/A	–	–	–
Interest income	11	23	–	–	34
Results from sales	1	7	29	–	37
TOTAL REVENUE	**12**	**30**	**29**	**–**	**71**
LOSS ON INVESTMENT DURING REPORTING PERIOD:					
Through equity	–	3	–	–	3
Through the income statement	0	2	–	–	2
TOTAL LOSSES	**0**	**5**	**–**	**–**	**5**

					2015
	SECURITI-SATIONS	COVERED BONDS	BNG DEPOSITO FONDS	BNG KAPITAAL-MARKT BONDS	TOTAL
Size of entity (balance sheet total)	28,712	27,480	453	217	56,862
Involvement in entity (balance sheet value/size in %)	10%	3%	15%	–	6%
BALANCE SHEET VALUE OF INTEREST/INVESTMENT:					
Financial assets at fair value through the income statement (from note 3)	254	242	–	–	496
Financial assets available-for-sale (from note 5)	1,533	20	–	–	1,553
Loans and advances (from note 6)	969	540	–	–	1,509
Assets held-for-sale (from note 11)	–	–	68	–	68
TOTAL BALANCE SHEET VALUE	**2,756**	**802**	**68**	**–**	**3,626**
Maximum exposure	2,756	802	68	–	3,626
Ratio of balance sheet value vs maximum exposure	1	1	1	–	1
AMOUNT IN REVENUE PER TYPE:					
Fund return	N/A	N/A	–	–	–
Management fee	N/A	N/A	1	1	2
Interest income	19	26	N/A	N/A	45
Results from sales	–	7	–	1	8
TOTAL REVENUE	**19**	**33**	**1**	**2**	**55**

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	2015				
	SECURITISATIONS	COVERED BONDS	BNG DEPOSITO FONDS	BNG KAPITAALMARKT BONDS	TOTAL
IMPAIRMENTS ON INVESTMENT DURING REPORTING PERIOD:					
Through equity	–	–	–	–	–
Through the income statement	3	16	–	–	19
TOTAL IMPAIRMENTS	**3**	**16**	**–**	**–**	**19**

INVOLVEMENT IN NON-CONSOLIDATED SECURITISATION AND COVERED BOND PROGRAMMES VIA STRUCTURED ENTITIES

BNG Bank has investments in securitised interest-bearing securities covered by additional security through non-consolidated structured entities. Mortgage portfolios serve as collateral for the securitisations and covered bonds. The funds invested by investors, including BNG Bank, serve to finance the underlying mortgages. The structured entities are independent entities that do not carry out any activities other than managing investments and the associated money flows.

Apart from its interest as an investor in interest-bearing securities, BNG Bank has not financed these structured entities or supported them in any other way, nor does it have any intention to do so in the near future. The bank has not transferred any assets to these structured entities.

INVOLVEMENT IN NON-CONSOLIDATED INVESTMENT FUNDS

BNG DEPOSITO FONDS

In 2016, BNG Bank sold its participating interests in BNG Deposito Fonds and recorded a positive sales result of EUR 29 million. The result on sales relates primarily to the release from the revaluation reserve of the difference between the fair value and the cost price of the participating interests. The result from this sale was recognised in the income statement (see note 27 Result from sale of assets held-for-sale).

The Hague, 10 March 2017

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIR
O.J. LABE
J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR
J.J. NOOITGEDAGT, VICE-CHAIR (AND SECRETARY)
C.J. BEUVING
L.M.M. BOLSIUS
T.J.F.M. BOVENS
J.B.S. CONIJN
MS P.H.M. HOFSTÉ
MS J. KRIENS
J.C.M. VAN RUTTE

Company financial statements

COMPANY BALANCE SHEET

Amounts in millions of euros

	31/12/2016	31/12/2015
ASSETS		
Cash and balances held with central banks[1]	6,417	3,175
Amounts due from banks[2]	11,795	10,540
Financial assets at fair value through the income statement[3]	2,350	2,884
Derivatives[4]	15,412	16,370
Financial assets available-for-sale[5]	15,437	13,459
Loans and advances[6]	87,547	89,336
Value adjustments on loans in portfolio hedge accounting[7]	14,894	13,559
Participating interests[8]	55	57
Property and equipment[9]	17	16
Other assets[10]	56	26
Assets held-for-sale[11]	–	69
TOTAL ASSETS	**153,980**	**149,491**

Continued on next page

The references refer to the notes to the company financial statements. The notes to the company financial statements are an integral part of the company financial statements.

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COMPANY BALANCE SHEET

Amounts in millions of euros

	31/12/2016	31/12/2015
LIABILITIES		
Amounts due to banks [12]	3,530	2,968
Financial liabilities at fair value through the income statement [13]	1,190	1,788
Derivatives [14]	24,780	23,261
Current tax liability [15]	33	18
Deferred tax liability [15]	116	206
Debt securities [16]	112,180	110,123
Funds entrusted [17]	7,544	6,854
Subordinated debts [18]	31	31
Other liabilities [19]	90	79
TOTAL LIABILITIES	**149,494**	**145,328**
Capital	139	139
Share premium reserve	6	6
Statutory reserves:		
– Revaluation reserve	275	320
– Cash flow hedge reserve	3	251
– Reserve for fair value increases	95	115
Other reserves	2,866	2,682
Unappropriated profit	369	226
EQUITY ATTRIBUTABLE TO SHAREHOLDERS [20]	**3,753**	**3,739**

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The references refer to the notes to the company financial statements. The notes to the company financial statements are an integral part of the company financial statements.

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COMPANY BALANCE SHEET

Amounts in millions of euros

	31/12/2016	31/12/2015
Hybrid capital [20]	733	424
TOTAL EQUITY [20]	**4,486**	**4,163**
TOTAL LIABILITIES AND EQUITY	**153,980**	**149,491**

The references refer to the notes to the company financial statements. The notes to the company financial statements are an integral part of the company financial statements.

COMPANY INCOME STATEMENT

Amounts in millions of euros

	2016		2015	
– Interest income[21]	6,123		6,275	
– Interest expenses[22]	5,720		5,827	
Interest result		403		448
– Commission income[23]	27		27	
– Commission expenses[24]	3		3	
Commission result		24		24
Result on financial transactions[25]		118		16
Results from participating interests[26]		0		−5
Result from sale of assets held-for-sale[27]		34		–
Other results[28]		0		1
TOTAL INCOME		**579**		**484**

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The references refer to the notes to the company financial statements. The notes to the company financial statements are an integral part of the company financial statements.

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COMPANY INCOME STATEMENT

Amounts in millions of euros

		2016		2015
− Staff costs[29]	36		34	
− Other administrative expenses[30]	25		25	
Staff costs and other administrative expenses		61		59
Depreciation[31]		2		2
TOTAL OPERATING EXPENSES		**63**		**61**
Impairments[32]		−38		62
Contribution to resolution fund[33]		16		9
Bank levy[33]		35		37
TOTAL OTHER EXPENSES		**13**		**108**
PROFIT BEFORE TAX		**503**		**315**
Taxes[15]		−134		−89
NET PROFIT		**369**		**226**
− of which attributable to the holders of hybrid capital		4		–
− of which attributable to shareholders		365		226

The references refer to the notes to the company financial statements. The notes to the company financial statements are an integral part of the company financial statements.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2016		2015	
NET PROFIT		**369**		**226**
Recyclable results recognised directly in equity (after taxation):				
– Changes in cash flow hedge reserve (after taxation):				
– Unrealised value movements	−250		−124	
– Realised value movements through the income statement	2		–	
		−248		−124
– Changes in the revaluation reserve for financial assets available-for-sale (after taxation):				
– Unrealised value movements	23		46	
– Realised value movements through the income statement	−54		−23	
– Impairments through the income statement	1		63	
– Impairments reversed through the income statement	−39		–	
		−69		86
TOTAL RECYCLABLE RESULTS		**−317**		**−38**

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COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2016		2015	
Non-recyclable results recognised directly in equity (after taxation):				
– Movement in the Own Credit Adjustment revaluation reserve for Financial liabilities at fair value through the income statement (after taxation):				
– Own Credit Adjustment (OCA) as at 1 January	30		–	
– Movement in OCA	−6		–	
		24		–
– Movement in actuarial results		0		0
TOTAL NON-RECYCLABLE RESULTS		**24**		**0**
RESULTS RECOGNISED DIRECTLY IN EQUITY		**−293**		**−38**
TOTAL		**76**		**188**
– of which attributable to the holders of hybrid capital		4		–
– of which attributable to shareholders		72		188

COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax	503		315	
Adjusted for:				
– Depreciation	2		2	
– Impairments	−38		62	
– Unrealised results through the income statement	−53		51	
Cash flow generated from business operations		414		430
Changes in Amounts due from and due to banks (not due on demand)	−993		718	
Changes in Loans and advances	1,434		984	
Changes in Funds entrusted	556		−923	
Changes in Derivatives	1,418		4,684	
Corporate Income tax paid	−110		−19	
Other changes from operating activities	−269		−84	
		2,036		5,360
TOTAL CASH FLOW FROM OPERATING ACTIVITIES*		**2,450**		**5,790**

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* Interest received amounted to EUR 5,867 million (2015: EUR 6,259 million) and interest paid amounted to EUR 5,536 million (2015: EUR 5, 775 million).

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COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
CASH FLOW FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement	–		−18	
– Financial assets available-for-sale	−2,565		−655	
– Participating interests	–		−2	
– Property and equipment	−3		−2	
		−2,568		−677
Disposals and redemptions:				
– Financial assets at fair value through the income statement	687		100	
– Financial assets available-for-sale	1,151		839	
– Assets held-for-sale	77		–	
		1,915		939
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**−653**		**262**

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COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2016	2015	2015
CASH FLOW FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Hybrid capital	310		425	
– Debt securities	151,495		69,772	
		151,805		70,197
Amounts paid on account of:				
– Debt securities	–149,745		–74,810	
– Financial liabilities at fair value through the income statement	–546		–470	
– Subordinated debts	–1		–1	
– Dividend distribution to the bank's shareholders	–57		–32	
– Dividend distribution to holders of hybrid capital	–8		–	
		–150,357		–75,313
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**1,448**		**–5,116**

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COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

	2016	2015
NET CHANGE IN CASH AND CASH EQUIVALENTS	**3,245**	**936**
Cash and cash equivalents as at 1 January	3,176	2,240
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**6,421**	**3,176**
Cash and cash equivalents as at 31 December comprise:		
– Cash and balances held with central banks	6,417	3,175
– Cash equivalents in the Amounts due from banks item	4	3
– Cash equivalents in the Amounts due to banks item	0	–2
	6,421	**3,176**

COMPANY STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR FAIR VALUE INCREASES	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 1/1/2015	**139**	**6**	**234**	**375**	**174**	**2,518**	**136**	**3,582**	**–**	**3,582**
Net profit							226	226		226
Unrealised results			86	−124				−38		−38
Issue of hybrid capital						1		1	424	425
Transfer to reserve for fair value increases					−59	59		–		–
Dividend distribution to the bank's shareholders						−32		−32		−32
Appropriation from previous year's profit						136	−136	–		–
BALANCE AS AT 31/12/2015	**139**	**6**	**320**	**251**	**115**	**2,682**	**226**	**3,739**	**424**	**4,163**
Net profit							369	369		369
Own Credit Adjustment (OCA) as at 1 January			30					30		30
Movement in OCA in 2016			−6					−6		−6
Unrealised results			−69	−248				−317		−317
Issue of hybrid capital						1		1	309	310
Transfer to reserve for fair value increases					−20	20		–		–
Dividend distribution to the bank's shareholders						−57		−57		−57
Dividend distribution to holders of hybrid capital						−6		−6		−6
Appropriation from previous year's profit						226	−226	–		–
BALANCE AS AT 31/12/2016	**139**	**6**	**275**	**3**	**95**	**2,866**	**369**	**3,753**	**733**	**4,486**

BNG Bank has not recognised any results from minority interests in the company equity which accrue to third parties. The entire equity, excluding hybrid capital, can be attributed to the shareholders. The dividend distribution on hybrid capital, which was made for the first time in 2016, was paid to the investors concerned.

Accounting principles for the company financial statements

The company financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and adopted throughout the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. As far as the financial accounting principles are concerned, reference is made, with the exception of the accounting principles mentioned below, to the notes to the accounting principles for the consolidated financial statements.

PARTICIPATING INTERESTS

The balance sheet item Participating interests is stated according to the equity method.

STATUTORY RESERVE FOR FAIR VALUE INCREASES

Pursuant to Section 2:390 sub 1 of the Dutch Civil Code, for capital protection purposes a statutory reserve must be maintained at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit) in relation to fair value increases of financial instruments stated as assets in the balance sheet for which there is no regular market quotation.

FOREIGN CURRENCY

The company financial statements are prepared in (millions of) euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank.

CHANGES IN ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the 2016 company financial statements are identical to the figures stated in the 2015 company financial statements except for the changes in accounting principles and disclosure listed below.

Since 1 January 2016, IFRS has provided the option to recognise participating interests in the company financial statements according to the equity method. Until the end of 2015, using the cost method was compulsory. BNG Bank has used this option with effect from 1 January 2016. This change in measurement basis is to be implemented with retrospective effect, which means that the comparative figures for the 2015 financial year have been adjusted. The adjustment has led to a change in the equity and the result for the 2015 financial year, eliminating the difference between the company and the consolidated equity and result for that year. The change has implications for the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and the corresponding notes for the 2015 financial year.

The following changes have been applied to the 2015 comparative figures stated in the 2016 company financial statements compared to the 2015 company financial statements:

- The Participating interests item has been reduced by EUR 14 million from EUR 71 million to EUR 57 million.
- The balance as at 1 January 2015 of the Other reserves item has been reduced by EUR 5 million from EUR 2,523 million to EUR 2,518 million.
- The Results from participating interests item has been reduced by EUR 9 million from EUR 4 million to EUR 5 million negative.

Notes to the company financial statements

Amounts in millions of euros.

1 CASH AND BALANCES HELD WITH THE CENTRAL BANKS

	31/12/2016	31/12/2015
Current account balances with the central banks (due on demand)	6,417	3,175
TOTAL	**6,417**	**3,175**

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2 AMOUNTS DUE FROM BANKS

The Amounts due from banks item includes all receivables from banks measured at amortised cost, as well as interest-bearing securities issued by banks for which there is no active market.

	31/12/2016	31/12/2015
Short-term loans and current accounts	4	3
Cash collateral	11,541	10,041
Long-term lending	10	11
Interest-bearing securities	–	100
Reclassified available-for-sale transactions	240	385
TOTAL	**11,795**	**10,540**

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as measured at fair value with changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Loans and advances	904	885
Interest-bearing securities	1,446	1,999
TOTAL	**2,350**	**2,884**

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No new loans and advances or interest-bearing securities were included in this item in 2016. The total redemption value of these loans and advances and securities at year-end 2016 is EUR 1,724 million (2015: EUR 2,118 million). Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

In the fourth quarter of 2016, BNG Bank sold and then later repurchased three English inflation-linked interest-bearing securities at the fair value of approximately EUR 630 million. During this period, virtually all risks had been transferred to a third party. In accordance with the IFRS guidelines, these securities are therefore derecognised. Following their repurchase, these securities were included in the Financial assets available-for-sale item. No result was realised on this transaction.

4 DERIVATIVES

This balance sheet item includes the positive fair value of derivatives. Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Derivatives not involved in a hedge accounting relationship	1,069	831
Derivatives involved in a portfolio hedge accounting relationship	4,428	4,277
Derivatives involved in a micro hedge accounting relationship	9,915	11,262
TOTAL	**15,412**	**16,370**

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5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments, if they are not recognised in Amounts due from Banks, Loans and advances, Financial assets at fair value through the income statement and Investments in participating interests.

	31/12/2016	31/12/2015
Interest-bearing securities, issued by:		
– Government	8,225	8,488
– Supranational organisations	1,217	1,020
– Credit institutions	2,357	1,757
– Other financial institutions	2,629	1,675
– Non-financial institutions	984	495
Investments in participating interests	25	24
TOTAL	**15,437**	**13,459**

TRANSFERS WITHOUT DERECOGNITION

At year-end 2016 and 2015, BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

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6 LOANS AND ADVANCES

The Loans and advances item includes all loans and advances granted measured at amortised cost, as well as interest-bearing securities (not issued by banks) for which there is no active market.

	31/12/2016	31/12/2015
Short-term loans and current accounts	4,918	4,361
Reverse repurchase transactions	0	501
Long-term lending	81,200	82,635
Interest-bearing securities	272	309
Reclassified available-for-sale transactions	1,195	1,575
	87,585	89,381
Incurred loss provision	−38	−45
TOTAL	**87,547**	**89,336**

The EUR 38 million (2015: EUR 45 million) incurred loss provision comprises EUR 22 million (2015: EUR 29 million) in individual provisions and EUR 16 million (2015: EUR 16 million) to the collective provision (IBNI).

	2016	2015
MOVEMENT IN THE INCURRED LOSS PROVISION:		
Opening balance	−45	−50
Additions during the financial year	−4	−5
Release during the financial year	7	6
Withdrawals during the financial year	4	4
CLOSING BALANCE	**−38**	**−45**

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7 VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

This refers to the value adjustments of the effective portion of the hedged interest rate risk of loans and advances involved in a hedge accounting relationship.

	2016	2015
MOVEMENTS OF VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING		
Opening balance	13,559	16,044
Movements in the unrealised portion in the financial year	2,818	−1,211
Amortisation in the financial year	−1,446	−1,256
Realisation from sales in the financial year	−37	−18
CLOSING BALANCE	**14,894**	**13,559**

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8 PARTICIPATING INTERESTS

	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	PARTICIPATING INTERESTS		BALANCE SHEET VALUE	
SUBSIDIARIES				
BNG Vermogensbeheer BV, The Hague		100%		0
BNG Gebiedsontwikkeling BV, The Hague	100%	100%	46	50
Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	6	5
SUBTOTAL			**52**	**55**
ASSOCIATES				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	2
SUBTOTAL			**3**	**2**
TOTAL			**55**	**57**

For a description of subsidiaries and associates, please refer to Appendix A and the Other notes, respectively, of the consolidated financial statements.

For summarised financial information on associates, refer to the ‘Other notes to the consolidated financial statements’.

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9 PROPERTY AND EQUIPMENT

	2016	2015	2016	2015	2016	2015
	PROPERTY		EQUIPMENT		TOTAL	
HISTORICAL COST						
Value as at 1 January	48	47	15	14	63	61
Investments	1	1	2	1	3	2
Disposals	0	0	0	0	0	0
Value as at 31 December	49	48	17	15	66	63
DEPRECIATION						
Accumulated depreciation as at 1 January	34	33	13	12	47	45
Depreciation during the year	2	1	0	1	2	2
Accumulated depreciation as at 31 December	36	34	13	13	49	47
TOTAL	**13**	**14**	**4**	**2**	**17**	**16**

ESTIMATED USEFUL LIFE	
Buildings	33⅓ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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10 OTHER ASSETS

	31/12/2016	31/12/2015
Various receivables	56	26
TOTAL OTHER ASSETS	**56**	**26**

The other assets are primarily composed of amounts receivable from lending to clients.

11 ASSETS HELD-FOR-SALE

In late April 2016, the AFM approved the sale of BNG Vermogensbeheer BV to ASR Nederland NV. The transfer was subsequently completed in May 2016 with retroactive effect to 1 January 2016. The sale of the shares resulted in a loss of control in BNG Vermogensbeheer and deconsolidation took place. All the assets and liabilities of BNG Vermogensbeheer and the bank's participating interest in BNG Depositofonds were derecognised from the consolidated balance sheet and the result from this sale was recognised in the income statement (see note 27 Result from sale of assets held-for-sale).

	31/12/2016	31/12/2015
Participating interest in BNG Depositofonds	–	67
BNG Vermogensbeheer	–	2
TOTAL	**–**	**69**

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12 AMOUNTS DUE TO BANKS

	31/12/2016	31/12/2015
Current account	0	2
Cash collateral	1,698	1,686
Deposits	1,782	1,280
Private loans	50	0
TOTAL	**3,530**	**2,968**

13 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes debt securities and private interest-bearing securities specifically designated as measured at fair value with changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Debt securities	943	1.356
Private interest-bearing securities	247	432
TOTAL	**1,190**	**1,788**

The total redemption value of the debt securities and funds entrusted at year-end 2016 is EUR 962 million (2015: EUR 1,401 million). From 1 January 2016, financial liabilities will also be recognised at fair value through the income statement on the relevant funding curve including the mark up for 'own credit risk'. The total effect was EUR 32 million positive. Note 25 Result on financial transactions explains the changes in value recognised through the income statement.

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14 DERIVATIVES

This balance sheet item includes the negative fair value of derivatives. Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

	31/12/2016	31/12/2015
Derivatives not involved in a hedge accounting relationship	1,134	1,417
Derivatives involved in a portfolio hedge accounting relationship	20,519	18,902
Derivatives involved in a micro hedge accounting relationship	3,127	2,942
TOTAL	**24,780**	**23,261**

15 TAXES

The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, the revaluation reserve for financial assets available-for-sale, own credit adjustment, hybrid capital and the cash flow hedge reserve, which all directly change into equity.

	31/12/2016	31/12/2015
Current tax liability	33	18
Deferred tax liability	116	206
TOTAL	**149**	**224**

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BNG Bank and the Dutch tax authorities have concluded a bilateral agreement (vaststellingsovereenkomst) for the period 2013 – 2017. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached. The reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2016	2015
Profit before tax	503	315
Tax levied at the nominal tax rate	–126	–80
Tax adjustment from previous years	0	0
Participation exemption	0	–
Income from the sale of BNG Vermogensbeheer not subject to tax	1	–
Non-deductible expenses (bank levy)	–9	–9
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**–134**	**–89**
Nominal tax rate	25.0%	25.0%
Effective tax rate	26.6%	28.3%

				2016
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	–			–
Financial assets available-for-sale	−124	20		−104
Cash flow hedge reserve	−83	81		−2
Own Credit Adjustment	–	−8		−8
Hybrid capital	–	−3		−3
Employee benefits provision	1		0	1
TOTAL	**−206**	**90**	**0**	**−116**

				2015
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	1		−1	0
Financial assets available-for-sale	−101	−23		−124
Cash flow hedge reserve	−125	42		−83
Employee benefits provision	1			1
TOTAL	**−224**	**19**	**−1**	**−206**

16 DEBT SECURITIES

This includes bonds and other issued negotiable debt securities with either fixed or variable interest rates. Any unsold portion of an issue is deducted from the relevant bond loan.

	31/12/2016	31/12/2015
Bond loans	92,915	92,019
Commercial Paper	14,297	13,341
Private debt securities	4,968	4,763
TOTAL	**112,180**	**110,123**

17 FUNDS ENTRUSTED

	31/12/2016	31/12/2015
Current account	1,955	2,280
Cash collateral	78	75
Deposits	1,317	143
Private bond loans	4,194	4,356
TOTAL	**7,544**	**6,854**

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18 SUBORDINATED DEBTS

	31/12/2016	31/12/2015
Subordinated debts	31	31
TOTAL	**31**	**31**

19 OTHER LIABILITIES

	31/12/2016	31/12/2015
Employee benefits provision	3	2
Other liabilities	87	77
TOTAL OTHER LIABILITIES	**90**	**79**

The employee benefits provision is made up of two parts, namely a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 2 million (2015: EUR 1 million) and a provision for vitality leave of EUR 1 million (2015: EUR 1 million). Both provisions have a long-term character.

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The movements in the present value of the net liability in relation to the defined benefits relating to the mortgage interest rate discount and the provision for vitality leave are as follows:

	2016	2015
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	2
Movements in the provision	1	0
NET LIABILITY AS AT 31 DECEMBER	**3**	**2**

The other liabilities are mainly composed of amounts payable related to derivatives and lending to clients.

20 EQUITY

Since BNG Bank has no minority interests, the entire company equity, excluding the hybrid capital, can be attributed to the shareholders. The items included in the company equity are explained below.

		31/12/2016		31/12/2015
Share capital		139		139
Share premium reserve		6		6
Revaluation reserve				
– Financial assets available-for-sale	251		320	
– Financial liabilities at fair value through the income statement ('own credit risk')	24		–	
		275		320
Cash flow hedge reserve		3		251
Reserve for fair value increases		95		115
Other reserves		2,866		2,682
Unappropriated profit		369		226
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**3,753**		**3,739**
Hybrid capital		733		424
TOTAL		**4,486**		**4,163**

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SHARE CAPITAL

The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. There are no issued shares that are not fully paid up. BNG Bank and its subsidiaries hold no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

SHARE PREMIUM RESERVE

There were no movements in 2016.

STATUTORY RESERVES

BNG Bank's statutory reserves consist of the revaluation reserve, the cash flow hedge reserve and the reserve for fair value increases.

REVALUATION RESERVE

The revaluation reserve includes EUR 251 million in unrealised changes in value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. EUR 9 million of the Revaluation reserve was associated with equity instruments as at 31 December 2016. In 2015, this was EUR 22 million, of which EUR 20 million (after tax) comprised Assets held-for-sale arising from the interest in BNG Depositofonds.

The Revaluation reserve also includes an amount in Own Credit Adjustment. Since 1 January 2016, financial liabilities will also be recognised at fair value through the income statement on the relevant funding curve including the mark up for 'own credit risk'. The total effect was EUR 24 million positive in equity net of deferred taxes, of which EUR 30 million positive is associated with the balance as at 1 January 2016 and EUR 6 million negative for 2016.

CASH FLOW HEDGE RESERVE

The effective portion of the unrealised changes in the value of derivatives, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The revaluation reserve is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 37 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting.

RESERVE FOR FAIR VALUE INCREASES

This reserve concerns the positive difference between the fair value and the amortised cost of financial instruments stated as assets in the balance sheet for which there is no regular market quotation. This statutory reserve is maintained for capital protection purposes at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit).

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2016, a dividend of EUR 57 million (2015: EUR 32 million) was paid out to the bank's shareholders for 2015, charged to the Other reserves. EUR 6 million (before tax) was distributed to the holders of the hybrid capital in 2016, charged to the Other reserves. As a result of the hybrid capital issued in 2016, the Other reserves still include a share premium and purchased interest of EUR 1 million in total (2015: EUR 1 million).

UNAPPROPRIATED PROFIT

The balance sheet is prepared prior to profit appropriation. This item represents the total result achieved after deduction of corporate income tax.

HYBRID CAPITAL

In 2016, BNG Bank issued private loans of EUR 309 million in hybrid capital. At year-end 2016, the bank's hybrid capital amounted to a total of EUR 733 million. This concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this payment for corporate income tax purposes has led to a public debate and the announcement of an enquiry by the European Commission into this subject in relation to potentially incompatible state aid. If the European Commission makes a negative recommendation, this could mean that BNG Bank will be required to repay the tax benefits and/or that future deductibility will no longer be permitted.

The instrument is structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. BNG Bank has the unilateral contractual option of repaying the perpetual capital instruments prematurely on the sixth coupon due date (in May 2021 and 2022) and subsequently every year on the coupon due date.

21 INTEREST INCOME

Interest income includes all positive interest results from both traditional financial instruments and derivatives, including negative interest expenses on financial liabilities. In addition, other credit-related income received is included in this item. Interest revenues on assets that were subject to impairment are recognised on the original effective interest percentage, as long as the expected interest cash flows are received.

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	2016	2015
Financial assets at fair value through the income statement	66	70
Financial assets available-for-sale	304	353
Derivatives	3,210	3,129
Loans and advances	2,492	2,685
Negative interest expenses on financial liabilities	36	17
Other	15	21
TOTAL	**6,123**	**6,275**

The interest revenues in 2016 include EUR 4 million (2015: EUR 4 million) in interest revenues for financial assets, relating to Financial assets available-for-sale (note 5) and Loans and advances (note 6), which were subject to impairment.

22 INTEREST EXPENSES

Interest expenses includes all negative interest results from both traditional financial instruments and derivatives, including negative interest revenues on financial assets. The cost of borrowing as well as other interest-related charges are also recognised.

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	2016	2015
Financial liabilities at fair value through the income statement	49	72
Derivatives	3,220	3,297
Debt securities	2,238	2,343
Funds entrusted	110	83
Negative interest income on financial assets	91	24
Other	12	8
TOTAL	**5,720**	**5,827**

23 COMMISSION INCOME

This item includes income from services provided to third parties.

	2016	2015
Income from loans and credit facilities	18	17
Income from payment services	9	10
TOTAL	**27**	**27**

24 COMMISSION EXPENSES

This item comprises expenses totalling EUR 3 million (2015: EUR 3 million) relating to services rendered by third parties in relation to loans and advances, facilities and payment services.

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25 RESULT ON FINANCIAL TRANSACTIONS

This item includes the result on financial transactions broken down into realised and unrealised market value adjustments.

		2016		2015
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:				
– Interest-bearing securities	45		−85	
– Structured loans	2		−8	
		47		−93
RESULT ON HEDGE ACCOUNTING				
– Portfolio fair value hedge accounting	18		16	
– Micro fair value hedge accounting	3		8	
– Micro cash flow hedge accounting	26		−1	
		47		23
Change in counterparty credit risk of derivatives (CVA/DVA)		−21		9
Realised sales and buy-out results		62		57
Other market value changes		−17		20
TOTAL		**118**		**16**

In 2016, the result on financial transactions was positively affected by unrealised results, mainly arising from the reduced credit and liquidity risk spreads of interest-bearing securities recorded under Financial assets at fair value through the income statement, Realised sales and buy-out results and Result on hedge accounting.

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The result on financial transactions was negatively affected by the rise in counterparty risk for derivatives and other market value adjustments. The Other market value adjustments item also includes the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

26 RESULTS FROM PARTICIPATING INTERESTS

This item includes the results from participating interests.

	2016	2015
Associates	0	0
Subsidiaries	0	−5
TOTAL	**0**	**−5**

For a description of the subsidiaries and associates, please refer to Appendix A and the Other notes, respectively, of the consolidated financial statements.

27 RESULT FROM SALE OF ASSETS HELD-FOR-SALE

The sale of the shares of BNG Vermogensbeheer and the bank's interest in the BNG Depositofonds was effected at the end of May 2016. The sale of the shares of BNG Vermogensbeheer and the sale of participating interests in BNG Depositofonds resulted in a realised gain of EUR 34 million. The result on sales relates primarily to the release from the revaluation reserve of the difference between the fair value and the cost price of the participating interests.

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28 OTHER RESULTS

	2016	2015
Income from consultancy services	0	1
TOTAL	**0**	**1**

29 STAFF COSTS

	2016	2015
Wages and salaries	23	23
Pension costs	3	3
Social security costs	2	2
Additions to the employee benefits provision	0	–
Other staff costs	8	6
TOTAL	**36**	**34**

30 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2016 amounted to EUR 25 million (2015: EUR 25 million).

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31 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 9). In total, the depreciation charges amounted to EUR 2 million in 2016 (2015: EUR 2 million).

32 IMPAIRMENTS

The impairments in 2016 amounted to EUR 38 million negative (2015: EUR 62 million). The impairments in 2016 were largely caused by the reversal of impairment on the HETA bond, which had already previously been written down. Impairments were also recognised for negative developments in individual loans and advances, in a number of participating interests of BNG Gebiedsontwikkeling (joint ventures) and in the minority interest in Transdev-BNG-Connexxion Holding (TBCH).

	2016	2015
Addition to the incurred loss provision for loans and advances	4	5
Release from the incurred loss provision for loans and advances	−7	−6
Impairment of financial assets available-for-sale	4	63
Reversal of impairment of financial assets available-for-sale	−39	–
TOTAL	**−38**	**62**

The changes in the incurred loss provision are included in the Loans and advances item (note 6).

Based on expected future developments, the investment in TBCH was written down by more than EUR 4 million to nil in the Financial assets available-for-sale item in 2016.

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In the fourth quarter of 2016, BNG Bank accepted the proposal to buy out the claims against HETA with a guarantee from the federal state of Carinthia for a rate of around 90% of the principal amount. This rate was considerably higher than the rate at the end of March 2015 (58%), on which the impairment of EUR 63 million in the first half of 2015 was based. The settlement has led to a reversal of the impairment amounting to more than EUR 39 million credited to the income statement.

33 CONTRIBUTION TO RESOLUTION FUND AND BANK LEVY

For a breakdown of this item, please refer to note 33 of the Notes to the consolidated financial statements.

34 FEES OF INDEPENDENT AUDITORS (AMOUNTS IN THOUSANDS OF EUROS)

The fees paid to independent auditors are included in other administrative expenses. In conformity with Section 382a of Part 9, Book 2 of the Dutch Civil Code, a breakdown of the fees paid to the independent auditors for audits and audit-related and non-audit-related services is given below.

	2016	2015
Audit of the financial statements	309	333
Other audit-related services	145	252
Other non-audit-related services	2	16
TOTAL	**456**	**601**

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OTHER NOTES

For the details of items 35, 36 and 37, please refer to the notes to the consolidated financial statements. For the other notes, please refer to the section entitled 'Other notes to the consolidated financial statements'.

REMUNERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

For the details of the remuneration of the Executive Board and the Supervisory Board, refer to the 'Other notes to the consolidated financial statements' section.

The Hague, 10 March 2017

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

O.J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR

J.J. NOOITGEDAGT, VICE-CHAIR (AND SECRETARY)

C.J. BEUVING

L.M.M. BOLSIUS

T.J.F.M. BOVENS

J.B.S. CONIJN

MS P.H.M. HOFSTÉ

MS J. KRIENS

J.C.M. VAN RUTTE

Other information

Independent auditor's report

TO: THE ANNUAL GENERAL MEETING AND SUPERVISORY BOARD OF N.V. BANK NEDERLANDSE GEMEENTEN

REPORT ON THE FINANCIAL STATEMENTS 2016

OUR OPINION

In our opinion the accompanying financial statements give a true and fair view of the financial position of N.V. Bank Nederlandse Gemeenten as at 31 December 2016, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

WHAT WE HAVE AUDITED

We have audited the accompanying financial statements 2016 of N.V. Bank Nederlandse Gemeenten, Den Haag ('the company' or 'BNG Bank'). The financial statements include the consolidated financial statements of N.V. Bank Nederlandse Gemeenten and its subsidiaries (together: 'the Group') and the company financial statements.

The financial statements comprise:
- the consolidated and company statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated and company income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in equity, and the consolidated and company cash flow statement;
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

THE BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

INDEPENDENCE

We are independent of N.V. Bank Nederlandse Gemeenten in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OUR AUDIT APPROACH

OVERVIEW AND CONTEXT

BNG Bank has a license to conduct banking activities, with as main activity providing financing to the Dutch public sector and semi-public domain. The group comprises of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

Given the importance of IT for the company and hence for our audit of the financial statements we have, to the extent relevant to our audit, paid specific attention to the IT general controls, which comprise the policies and procedures to ensure a reliable automated processing of information used for for financial reporting purposes. BNG Bank has outsourced a large part of its IT activities to Centric FSS as set out in the paragraph in the financial statements related to outsourcing risk. This also has implications for our audit as set out in the section 'The scope of our group audit' of the audit report.

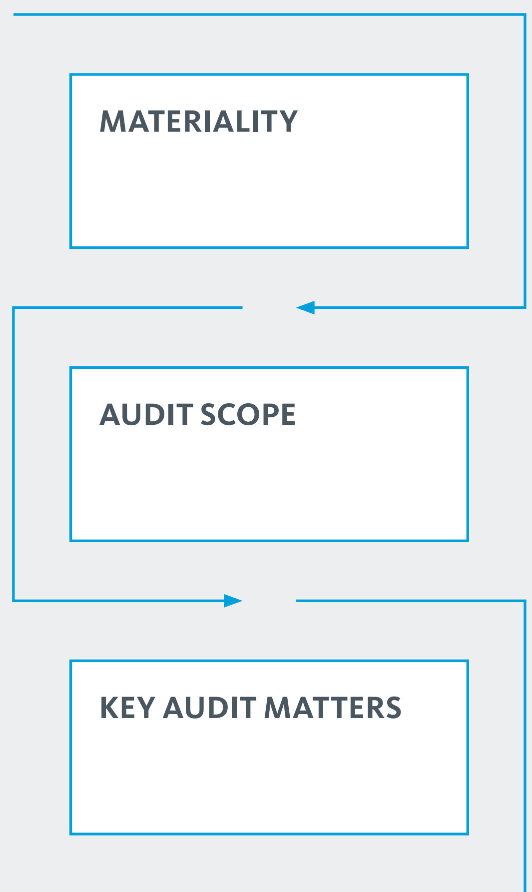
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Executive Board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the paragraph 'The use of statistics and methods' of the financial statements the company discloses the areas of judgment and the key elements of estimation uncertainty. Given the significant estimation uncertainty involved in determining the valuation of financial instruments measured at fair value and impairment of loans and advances, we considered these to be key audit matters as set out in the section 'Key audit matters'. Furthermore, we determined the application of hedge accounting to be a key audit matter given the level of complexity and subjectivity involved.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Executive Board that may represent a risk of material misstatement due to fraud based upon an analyses of potential incentives of the Executive Board.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a banking institution. We therefore included specialists in the areas of banking activities, IT, as well as valuation of financial instruments and hedge accounting in our team.

Based on these procedures we have compiled our risk analysis and audit plan, which have been discussed and agreed with the Executive Board and the Supervisory Board.

The outlines of our audit approach were as follows:



MATERIALITY

- Overall materiality: € 25.2 million which represents 5% of profit before tax.

AUDIT SCOPE

- We conducted our audit work on BNG Bank and both of its subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V.
- In our audit of the valuation of participations held by BNG Gebiedsontwikkeling B.V. we made use of the work performed by another auditor.
- In our assessment of the IT landscape we made use of the ISAE 3402 Type 2 report of Centric FSS.

KEY AUDIT MATTERS

- Valuation of financial instruments measured at fair value.
- Impairment of loans and advances.
- Application of hedge accounting.

MATERIALITY

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

OVERALL GROUP MATERIALITY	€ 25.2 million.
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that benchmark profit before tax is an important metric for the financial performance of the company.
COMPONENT MATERIALITY	BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. were audited based on a statutory audit materiality, that was applicable to these entities as part of their statutory audits, that was lower than our overall group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above € 1.3 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

THE SCOPE OF OUR GROUP AUDIT

BNG Bank is the parent company of a group with BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. as its subsidiaries. The financial information of these subsidairies is included in the consolidated financial statements of the group. The audit of BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. has been performed by the same audit team that has performed the audit of the company. As a result of this integrated approach all consolidated positions and transactions in the financial statements were part of our audit.

As the audit of the 2016 financial statements was our first year as auditor of BNG Bank, we have, in addition to our regular audit procedures, performed additional audit procedures relating the transition from the predecessor auditor to us. These audit procedures include, amongst others, the following:

- procedures to obtain sufficient appropriate audit evidence relating the opening balance sheet of 1 January 2016, including contact with the predecessor auditor and a file review of the 2015 audit file; and
- procedures to understand the company and its environment, including the internal controls and IT systems.

In our audit of the valuation of participations held by BNG Gebiedsontwikkeling B.V. we made use of the work performed by another auditor. We determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole. We have sent specific instructions to the auditor and performed a file review of the audit file of the auditor.

The subsidiary BNG Vermogensbeheer B.V. was sold in May 2016 with the effective date of the sale on 1 January 2016. As a result, this former subsidiary is no longer consolidated as from this date.

BNG Bank has outsourced the largest part of its IT activities and payment services to Centric FSS. In our assessment of the IT landscape, we made use of the ISAE 3402 Type 2 report from Centric FSS. In this context, we have been involved in planning the ISAE 3402 work by the external auditor of Centric FSS, discussed main findings and progress of the audit and, finally, evaluated the ISAE 3402 assurance report once it was finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of BNG Bank, we can rely on the ISAE 3402 Type 2 assurance report of Centric FSS.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE Refer to the accounting policy 'fair value of financial instruments' and the disclosure note 'fair value of financial instruments' in the consolidated financial statements BNG Bank has financial instruments on its balance sheet which are measured at fair value and classified as financial assets or liabilities at fair value through the income statement, financial assets available-for-sale or derivatives. For financial instruments in an active market and for which observable quoted market prices or other market information is available, there is a high degree of objectivity involved in the determining the fair value (level 1 instruments). However, when observable quoted market prices or other market information is not available, the fair value of financial instruments is inherently subjective in nature. The fair value of those financial instruments (level 2 and level 3 instruments) is determined using valuation techniques in which judgments made by management and the use of Continued on next page	Our audit work included, amongst others, understanding, evaluating and testing the operating effectiveness of controls within the valuation process of determining the fair value of financial, including the techniques, assumptions and estimates which are used therein. Based on this work we concluded that, to the extent relevant in our audit, we could rely on the operating effectiveness of these controls. For structured interest-bearing securities which are classified as financial assets and liabilities at fair value through the income statement, financial assets available-for-sale and derivatives we, with the assistance of our internal valuation experts, tested the appropriateness of the valuation methodologies and models applied. For those financial instruments we have compared the input data used to independent sources and external available market data. Where there are assumptions, estimates and judgments made by management, we have made use of our internal valuation experts in assessing and evaluating these assumptions and estimates by

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
assumptions and estimates such as market prices, curves, correlations and volatilities are important factors. As of 31 December 2016 for BNG Bank this consist of structured interest-bearing securities which are classified as either financial assets at fair value through the income statement or financial assets available-for-sale and derivatives. Given the subjectivity and complexity involved in determining the fair value of these financial instruments we determined this to be a key audit matter in our audit. Given the size of the financial instruments, any deviations could have a significant impact on result and equity.	comparing these to market data for similar instruments. The main assumptions and estimates used relate to the recovery rate of monoline insurers and liquidity spreads in the spread curve used for valuing structured interest-bearing securities and the credit valuation adjustment in the valuation of derivatives. Finally, we, based on our risk assessment, made a selection and an independent valuation of individual financial instruments was performed by our internal valuation experts. On the basis of the work carried out by us we conclude that, given the inherent estimation uncertainty involved in determining the valuation of the financial instruments, the valuation of these instruments within the financial statements is within an acceptable range.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
IMPAIRMENT OF LOANS AND ADVANCES Refer to the accounting policy 'Impairment of financial assets' and note 6 'Loans and advances' in the consolidated financial statements The lending to clients classified as loans and advances measured at amortized cost amounts to €87.6 billion as at 31 December 2016. Most of this relates to loans that are guaranteed by a (central) government body or by the WSW and WfZ guarantee funds. The credit risk inherent in this category is limited as explained in the risk paragraph in the financial statements. The remaining loans have a higher risk of shortfalls in expected future cash flows from repayments and collateral values. BNG Bank determines whether there are indications of impairment on individual loans. As required by EU-IFRS, an impairment is recognized for credit losses that incurred before or at the balance sheet date. For loans where there is an indication of impairment an estimate, at counterparty level, of future cash flows is made using a	Our audit work included, amongst others, understanding, evaluating and testing the operating effectiveness of controls in the lending and credit risk mitigation process. These include, amongst others, controls aimed at identifying indicators for impairment and determining the loan loss provision. Based on this work performed, we concluded that, to the extent relevant to our audit, we could rely on the operating effectiveness of these controls. For loans, which are not identified by management as a higher risk of a potential impairment, we assessed whether there has been no indication for impairment by, for example, determining that there are no significant arrears in payments and evaluating available financial information of counterparties. For loans where an indication for impairment is identified, we evaluated the estimation for the impairment made by management. In doing so we have tested the assumptions made by management regarding future cash flows based

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
discounted cash flow method. Assumptions which are made in this impairment process consist of estimating the expected proceeds from the sale of collateral, the financial condition of the borrower, estimation of cash flows still to be received, the timing of such cash flows and the discount rate. Loans for which no objective evidence of impairment exists are included in the calculation of the incurred but not identified provision ('IBNI'). Key assumptions applied in calculating IBNI consist of the exposure at default ('EAD'), probability of default ('PD'), loss given default ('LGD') and the loss emergence period ('LEP'). Given the subjectivity involved in identifying indications for impairment, determining the expected future cash flows and the possible significant impact a potential impairment could have on result and equity we have identified this as a key audit matter in our audit.	on financial information, market information, and, if available, alternative scenarios. For the IBNI loss provision we tested the key assumptions (such as the EAD, PD, LGD and LEP) by comparing these to available market data and best practices within the market. Our audit procedures did not indicate any material misstatements in the impairment of loans and advances.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
APPLICATION OF HEDGE ACCOUNTING Refer to the accounting policy 'Hedge accounting' in the consolidated financial statements BNG Bank enters into derivatives to hedge its interest rate risk and variability in cash flows. By applying hedge accounting, the results of the hedged item and the hedging instrument are recognized simultaneously in the income statement to neutralise so the impact on the result, to the extent the hedging relationship is effective. BNG Bank applies fair value hedge accounting to hedge interest rate risks and cash flow hedge accounting with respect to variability in cash flows as a result of currency fluctuations. To apply hedge accounting, BNG Bank must meet the strict EU-IFRS requirements. These include amongst others: – Documentation of hedging relationships in formal hedge documentation; – Performing hedge effectiveness testing; and – Processing the results of the effectiveness tests in the financial statements.	Our audit work included, amongst others, understanding, evaluating and testing the operating effectiveness of controls relating to the documentation and review of hedge relationships, including testing the hedge ineffectiveness. Based on this work, we concluded that, to the extent relevant to our audit, we could rely on the operating effectiveness of these controls. For a selection of hedging relationships we have verified that hedge documentation complied with the hedge objectives and the requirements of EU-IFRS. In addition, we made use of our internal hedge accounting specialists to test the models used by BNG Bank for calculating hedge effectiveness and the results of the hedge effectiveness tests. We have tested the reconciliation between the results of the effectiveness tests and the hedge adjustments in the financial statements. We have also tested the manual entries made within the hedge reserves.

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
BNG Bank has developed specific models for calculating hedge effectiveness. The determination of the effectiveness is complex and highly subjective. Given the technical requirements for the application of hedge accounting and that incorrect application of these requirements could have a material impact on result and equity, we have considered this a key audit matter in our audit.	Our audit procedures, as described above, did not result in material misstatements with respect to the methodology in which hedge accounting is applied by BNG Bank in accordance with the EU-IFRS requirements.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- profile;
- selected financial data;
- foreword;
- organisation;
- report of the Supervisory Board; and
- report of the Executive Board.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OUR APPOINTMENT

We were appointed on 23 April 2015 as auditor of N.V. Bank Nederlandse Gemeenten by the General Meeting following the passing of a resolution by the Supervisory Board on 28 November 2014. Starting fiscal year 2016 we are the auditor of the company.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

The Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 10 March 2017
PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.

Originally signed by
R.E.H.M. VAN ADRICHEM RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2016 OF N.V. BANK NEDERLANDSE GEMEENTEN

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Data-measuring technique for CSR reporting purposes

Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and the Compliance/Compliance Officer and the consumption records of Facility Management. Assumptions/estimates have been made in calculating the organisation's CO_2 footprint in the form of an estimate of the total office area and gas and electricity consumption. The number of kilometres driven by employees in their own cars for business purposes is not known. However, this is amply compensated in the conservative estimate made for the private use of leased cars. The calculation of the quantity of waste is based on the number of container emptyings (volume) multiplied by the specific weight of the type of waste concerned. This calculation assumes that each container offered for emptying was 80% full. The methodologies are set out in work instructions. In terms of accuracy, BNG Bank deems the inherent limitations attached to the estimates as non-material.

BNG Bank uses 2010 as the baseline year for its CO_2 emissions – the year in which the bank began registering its emissions on an annual basis. The bank's CO_2 footprint is calculated using operational control instruments. All business units that fall within the bank's operational control are included in its CO_2 footprint. Through to 2012 BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK) and those set out in the EC IPPC (Industrial Emissions) Directive. Since BNG Bank operates solely on the Dutch market, it was decided in 2013 to no longer apply the international conversion factors but to from now on use the standard conversation factors generally accepted in the Netherlands in accordance with the CO_2 performance ladder instead, barring one exception. Green power is extrapolated as being climate-neutral (0 grams CO_2 /kWh). From 2016, CO_2 emissions generated by district heating are calculated on the basis of the STEG emissions factor (36 kg/GJ). Prior to that, the calculation was based on 20 kg/GJ in accordance with the CO_2 emissions ladder. In contrast to the CO_2 performance ladder, business flights are attributed to scope 3 (in accordance with the GHG protocol).

The CSR information is audited internally and by an external party.

Assurance-report of the independent auditor

TO: THE ANNUAL GENERAL MEETING AND SUPERVISORY BOARD OF N.V. BANK NEDERLANDSE GEMEENTEN

ASSURANCE-REPORT ON THE SUSTAINABILITY SECTIONS OF THE INTEGRATED REPORT 2016

OUR OPINION

In our opinion, the sustainability sections included in the integrated report of N.V. Bank Nederlandse Gemeenten presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the events and achievements related thereto for the year ended 31 December 2016 in accordance with the sustainability reporting Guidelines version G4 of the Global Reporting Initiative and the internally applied reporting criteria.

WHAT WE HAVE AUDITED

The sustainability sections contain a representation of the policy and business operations of N.V. Bank Nederlandse Gemeenten, The Hague (hereafter: ‘the company’ or ‘BNG Bank’) regarding sustainability and the events and achievements related thereto for 2016.

We have audited the sustainability sections for the year ended 2016, as included in the following sections in the integrated report ('the sustainability sections') of BNG Bank:
- Selected financial data (social and environmental);
- GRI G4 table;
- sustainability sections in the report of Supervisory Board;
- report of the Executive Board:
  - our value for society;
  - our stakeholder and their expectations;
  - our strategy;
  - our social contribution;
  - our contribution to a better environment; and
  - our employees.

The sustainability sections contain several references to external sources and external websites which do not form part of our engagement.

THE BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including Dutch Standard 3810N 'Assurance-opdrachten inzake maatschappelijke verslagen' (Assurance engagements related to sustainability reports). This audit engagement is aimed to obtain reasonable assurance. Our responsibilities according to this standard are further described in the section 'Our responsibilities for the audit of the sustainability sections' of this assurance report.

INDEPENDENCE AND QUALITY CONTROL

We are independent of N.V. Bank Nederlandse Gemeenten in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We apply the 'Nadere voorschriften accountantskantoren ter zake van assuranceopdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORTING CRITERIA

BNG Bank developed its reporting criteria on the basis of the sustainability reporting Guidelines version G4 of Global Reporting Initiative (GRI), as disclosed in chapter 'Data-measuring technique for CSR reporting purposes' and the GRI Content table. The information in scope of this assurance engagement needs to be read and understood in conjunction with the reporting criteria. The Executive Board is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

INHERENT LIMITATIONS

The sustainability sections include prospective information such as expectations on ambitions, strategy, plans and estimates based on assumptions. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance in respect of assumptions and achievability of prospective information in the sustainability sections.

RESPONSIBILITIES FOR THE SUSTAINABILITY SECTIONS AND THE ASSURANCE ENGAGEMENT

RESPONSIBILITIES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board of BNG Bank is responsible for the preparation of the sustainability sections in accordance with the sustainability reporting Guidelines version G4 of GRI and the internally applied reporting criteria as disclosed in the integrated report, including the identification of stakeholders and the definition of material subjects. The choices made by the Executive Board regarding the scope of the sustainability sections and the reporting policy are disclosed in the integrated report. The Executive Board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability sections that are free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the company's reporting process on the sustainability sections.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE SUSTAINABILITY SECTIONS

Our responsibility is to plan and perform an assurance engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our audit engagement is aimed at obtaining reasonable assurance on the sustainability sections in the integrated report. Our audit has been performed with a high, but not absolute level of assurance. This means we may not have detected all material misstatements.

Misstatements may arise due to fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability sections. The materiality affects the nature, timing and extent of our audit and the evaluation of the effect of identified misstatements on our opinion.

PROCEDURES PERFORMED

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main procedures include:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the company.
- Identifying and assessing the risks of material misstatement of the sustainability sections, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the international override of internal control.

- Obtaining an understanding of internal control relevant to the assurance engagement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates made by the Executive Board.
- Interviewing members of the Executive Board (or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability's strategy and policy.
- Interviewing relevant staff, responsible for providing the information in the sustainability sections, performing internal control procedures on data and consolidating the data in the sustainability sections.
- Visits to the headquarter in The Hague to evaluate the source data and to evaluate the design and implementation of control and validation procedures at local level.
- An analytical review of the data and trends submitted for consolidation at corporate level.
- Testing relevant data, internal and external documentation and relevant underlying transactions on a sample basis, to determine the reliability of the information presented in the sustainability sections.
- Evaluating the overall presentation, structure and content of the sustainability report including the disclosures, and evaluate whether the sustainability sections provide a reliable and adequate view of underlying transactions and events.
- Assessing whether the sustainability information has been prepared 'in accordance' with the Sustainability Reporting Guidelines version G4 of GRI.
- Assessing the consistency of the information in the sustainability sections and other information in the integrated report not in scope of this assurance report.

Amsterdam, 10 March 2017

PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.

Originally signed by
R.E.H.M. VAN ADRICHEM RA

Stipulations of the articles of association concerning profit appropriation

Article 23 of the Articles of Association relating to the distribution of the profit includes the following provisions:

1. Profit may be distributed only after the General Meeting of Shareholders has adopted the financial statements from which it appears that such distribution is permitted.
2. The company may make payments to the shareholders from the profits available for distribution only insofar as its equity capital exceeds the amount of the paid-up part of the capital plus the statutory reserves.
3. First of all, if possible, an amount of ten per cent (10%) of the profit of the financial year available for distribution as evidenced by the financial statements shall be added to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.
4. The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholding, insofar as the General Meeting of Shareholders does not allocate this amount to the reserves.
5. The company is empowered to make interim profit distributions, subject to the provisions of Section 105, sub 4, of Book 2 of the Dutch Civil Code.

Objectives as defined in the articles of association

Article 2 of the Articles of Association contains the following provisions:

1. The objective of the company shall be to conduct the business of banker on behalf of public authorities.
2. In the context of its objective as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending funds, granting loans in other ways, providing guarantees, executing payments, conducting foreign exchange transactions, acting as adviser and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose objectives are connected with or conducive to any of the foregoing. The company shall be authorised to perform all acts which may be directly or indirectly conducive to its objective.
3. The term public authorities as referred to in paragraph 1 means:
   a. municipalities and other legal persons in the Netherlands under public law as referred to in Section 1(1) and (2) of Book 2 of the Dutch Civil Code;
   b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;
   c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;
   d. legal persons under private law:
      – half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to at a, b and c of this paragraph;

and/or

- half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to at a, b and c;

and/or

- half or more of the income side of whose operating budget is provided or secured directly or indirectly by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;

and/or

- whose operating budget is determined or approved directly or indirectly by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;

and/or

- whose obligations toward the company are guaranteed directly or indirectly by one or more of the bodies referred to at a, b and c or will be so guaranteed on the basis of a scheme, bye-law or law adopted by one or more of such bodies, which obligations are understood to include non-guaranteed obligations from pre-financing or otherwise which, following novation, will give rise to obligations that are to be guaranteed by one or more of such bodies on the basis of a scheme, bye-law or law adopted by one or more of such bodies;

and/or

- which perform a part of the government's tasks on the basis of a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c.

Appendices

A BNG Bank subsidiaries

BNG GEBIEDSONTWIKKELING BV 100%
Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD
G.C.A. RODEWIJK

P.O. Box 16075
2500 BB The Hague
Telephone +31 70 3119 900
info@bnggo.nl

Objective:
To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.

HYPOTHEEKFONDS VOOR OVERHEIDSPERSONEEL BV (HVO) 100%

Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD (AS AT 1 JANUARY 2016)

A.M. VAN OORD

T. WESSELING

P.O. Box 30305
2500 GH The Hague
Telephone +31 70 3750 619
bms@bngbank.nl

Objective:
The financing of mortgage loans taken out by civil servants in the employ of an affiliated public or semi-public institution with which a cooperation agreement has been reached.

B BNG Bank shareholders as at 31 december 2016

55,690,720 SHARES	
Aa en Hunze	52,728
Aalburg	17,550
Aalsmeer	25,857
Aalten	19,305
Achtkarspelen	87,711
Alblasserdam	9,477
Albrandswaard	3,510
Alkmaar	189,930
Almelo	174,525
Almere	3,432
Alphen aan den Rijn	256,854
Ameland	3,120
Amersfoort	272,220
Amstelveen	143,520
Amsterdam	617,058
Apeldoorn	132,093
Appingedam	23,751
Arnhem	496,470
Assen	85,301
Asten	13,000
Baarle-Nassau	3,510
Baarn	46,800
Barendrecht	32,097
Barneveld	24,570
Bedum	5,265
Beek (L)	11,544
Beemster	7,020
Beesel	66,300
Bellingwedde	12,597
Berg en Dal	103,116
Bergeijk	80,886

Bergen (L)	10,530
Bergen (N.H.)	149,994
Bergen op Zoom	41,067
Berkelland	305,877
Bernheze	21,060
Best	24,570
Beuningen	14,040
Beverwijk	85,605
Binnenmaas	105,495
Bladel	62,790
Blaricum	5,967
Bloemendaal	21,060
Bodegraven-Reeuwijk	76,830
Borger-Odoorn	80,340
Borne	107,172
Borsele	39,273
Boxmeer	38,660
Boxtel	53,385
Breda	257,439
Brielle	24,414
Bronckhorst	72,384
Brummen	702
Brunssum	86,658
Bunnik	3,000
Buren	23,953

Capelle aan den IJssel	7,722
Castricum	40,872
Coevorden	94,926
Cranendonck	5,000
Cromstrijen	7,020
Cuijk	32,253
Culemborg	8,775

Dalfsen	33,735
Dantumadiel	12,285
Delft	47,385
Delfzijl	39,156
De Bilt	218,673
De Friese Meren	108,436
De Marne	10,530
De Ronde Venen	37,323
De Wolden	31,122
Den Helder	211,731
Deurne	99,840
Deventer	292,313
Diemen	8,775
Dinkelland	16,934
Doesburg	27,612
Doetinchem	62,634
Dongen	23,510
Dongeradeel	76,323
Dordrecht	233,142
Drechterland	15,756

Drenthe (province)	87,750
Drimmelen	36,426
Druten	9,477
Duiven	3,510
Echt-Susteren	21,411
Edam-Volendam	41,730
Ede	108,420
Eemsmond	21,060
Eersel	121,021
Eijsden-Margraten	52,455
Eindhoven	171,600
Elburg	76,830
Emmen	58,266
Enkhuizen	130,650
Enschede	200,343
Epe	60,879
Ermelo	75,075
Etten-Leur	9,828
Ferwerderadiel	5,967
Flevoland (province)	75,250
Franekeradeel	34,554
Friesland (province)	75,250
Geertruidenberg	133,653
Gelderland (province)	87,750

Geldermalsen	28,665
Geldrop-Mierlo	30,186
Gemert-Bakel	45,474
Gennep	10,530
Giessenlanden	25,935
Gilze en Rijen	10,179
Goeree-Overflakkee	72,501
Goes	96,369
Goirle	12,636
Gooise Meren	100,698
Gorinchem	96,330
Gouda	82,446
Groningen (municipality)	329,199
Groningen (province)	75,250
Grootegast	9,750
Gulpen-Wittem	26,040
Haaksbergen	35,958
Haaren	11,278
Haarlem	230,295
Haarlemmerliede en Spaarnwoude	62,790
Haarlemmermeer	60,372
Halderberge	43,524
Hardenberg	64,935
Harderwijk	58,968
Hardinxveld-Giessendam	31,356
Haren	9,126

Harlingen	31,200
Hattem	30,030
Heemskerk	7,722
Heemstede	122,421
Heerde	9,126
Heerenveen	65,267
Heerhugowaard	9,789
Heerlen	424,827
Heeze-Leende	10,020
Heiloo	36,000
Hellendoorn	24,180
Hellevoetsluis	6,240
Helmond	52,650
Hendrik Ido Ambacht	25,818
Hengelo (O)	174,486
’s-Hertogenbosch	146,188
Het Bildt	73,905
Heumen	151,515
Heusden	44,499
Hillegom	49,686
Hilvarenbeek	23,510
Hilversum	120,939
Hof van Twente	157,326
Hollands Kroon	60,294
Hoogeveen	17,550
Hoogezand-Sappemeer	31,161
Hoogheemraadschap Hollands Noorderkwartier	17,355

Hoorn	46,098
Horst aan de Maas	113,108
Houten	6,240
Huizen	85,956
Hulst	17,472
IJsselstein	4,563
Kaag en Braassem	121,719
Kampen	100,893
Kapelle	53,040
Katwijk	144,066
Kerkrade	183,300
Koggenland	29,016
Kollumerland en Nieuwkruisland	22,347
Korendijk	29,718
Krimpen aan den IJssel	32,799
Krimpenerwaard	50,700
Laarbeek	20,709
Landerd	29,094
Landgraaf	41,301
Landsmeer	24,453
Langedijk	6,318
Lansingerland	15,015
Leek	28,041
Leerdam	17,550

Leeuwarden	133,044
Leeuwarderadeel	72,150
Leiden	347,646
Leiderdorp	97,968
Leidschendam-Voorburg	203,190
Lelystad	5,000
Leudal	143,052
Limburg (province)	156,000
Lingewaal	17,550
Lingewaard	19,305
Lisse	18,252
Littenseradiel	8,736
Lochem	60,138
Loon op Zand	41,886
Lopik	26,442
Loppersum	24,102
Losser	17,550
Maasdriel	20,770
Maasgouw	72,150
Maassluis	61,035
Maastricht	347,334
Marum	7,020
Medemblik	13,650
Meerssen	13,689
Menameradiel	24,375
Menterwolde	38,688

Meppel	18,915
Middelburg	49,296
Midden-Delfland	48,594
Midden-Drenthe	60,138
Mill en St. Hubert	5,265
Moerdijk	27,027
Molenwaard	35,022
Montferland	19,756
Montfoort	12,480
Mook en Middelaar	123,708
Neder-Betuwe	18,246
Nederweert	14,040
Neerijnen	14,040
Nieuwegein	80,184
Nieuwkoop	36,348
Nijkerk	32,370
Nijmegen	193,479
Nissewaard	20,280
Noord-Beveland	6,520
Noord-Brabant (province)	40,000
Noord-Holland (province)	610,350
Noordenveld	30,771
Noordoostpolder	19,656
Noordwijk	12,636
Noordwijkerhout	8,775
Nuenen, Gerwen en Nederwetten	1,755

Nunspeet	75,075
Nuth	11,232
Oegstgeest	46,059
Oirschot	8,775
Oisterwijk	7,845
Oldambt	181,116
Oldebroek	9,750
Oldenzaal	17,550
Olst-Wijhe	18,252
Ommen	79,638
Onderbanken	8,775
Oost Gelre	51,363
Oosterhout	35,100
Ooststellingwerf	18,720
Oostzaan	24,765
Opmeer	19,188
Opsterland	66,651
Oss	64,646
Oud-Beijerland	5,265
Oude IJsselstreek	161,460
Ouder-Amstel	4,914
Oudewater	27,612
Overbetuwe	21,762
Overijssel (province)	87,750
Papendrecht	6,318
Peel en Maas	63,687
Pekela	26,130
Pijnacker-Nootdorp	57,564
Purmerend	7,020
Putten	10,530
Raalte	25,987
Reimerswaal	15,990
Renkum	89,739
Reusel-De Mierden	10,530
Rheden	186,966
Rhenen	61,035
Ridderkerk	89,115
Rijnwaarden	4,914
Rijssen-Holten	304,746
Rijswijk (Z.H.)	165,945
Roerdalen	17,199
Roermond	34,749
Roosendaal	56,862
Rotterdam	321,555
Rucphen	19,656
Schagen	55,497
Scherpenzeel	3,510
Schiedam	326,352
Schiermonnikoog	7,020
Schijndel	28,782

Schinnen	7,020
Schouwen-Duiveland	23,790
Simpelveld	6,630
Sint-Anthonis	12,285
Sint-Michielsgestel	21,060
Sint-Oedenrode	64,857
Sittard-Geleen	175,266
Sliedrecht	31,200
Slochteren	20,124
Sluis	10,140
Smallingerland	110,292
Soest	123,825
Someren	15,444
Son en Breugel	29,991
State of the Netherlands	27,845,360
Stadskanaal	27,339
Staphorst	30,030
Stede Broec	17,823
Steenbergen	11,583
Steenwijkerland	129,675
Stein	19,266
Stichtse Vecht	29,523
Strijen	6,240
Sudwest Fryslan	317,058
Ten Boer	3,510
Terneuzen	45,474
Terschelling	3,510
Texel	7,371
Teylingen	57,681
The Hague	1,275,456
Tholen	33,696
Tiel	36,803
Tilburg	71,786
Tubbergen	30,000
Twenterand	23,868
Tynaarlo	43,243
Tytsjerksteradiel	48,945
Uden	17,550
Uitgeest	3,510
Uithoorn	54,522
Urk	3,861
Utrecht (municipality)	763,074
Utrecht (province)	87,750
Utrechtse Heuvelrug	201,669
Vaals	17,121
Valkenburg aan de Geul	21,060
Valkenswaard	12,987
Veendam	86,190
Veenendaal	86,970
Veere	7,020
Veghel	26,598

Veldhoven	35,100
Velsen	280,410
Venlo	106,026
Venray	54,202
Vianen	22,698
Vlaardingen	198,198
Vlagtwedde	16,458
Vlieland	3,510
Vlissingen	70,356
Voerendaal	11,232
Voorschoten	41,184
Voorst	112,983
Vught	15,795
Waalre	6,318
Waalwijk	29,133
Waddinxveen	17,823
Wageningen	50,310
Wassenaar	106,392
Waterland	14,040
Weert	41,379
Weesp	33,501
Werkendam	9,828
Westerveld	51,987
Westervoort	3,510
Westland	301,860
Weststellingwerf	58,071
Westvoorne	66,963
Wierden	21,060
Wijchen	11,193
Wijdemeren	33,930
Wijk bij Duurstede	23,751
Winsum	10,140
Winterswijk	17,199
Woensdrecht	11,232
Woerden	123,201
Wormerland	36,660
Woudenberg	3,510
Woudrichem	10,530
Zaanstad	416,286
Zaltbommel	3,861
Zandvoort	56,862
Zederik	43,017
Zeewolde	78
Zeist	192,075
Zevenaar	8,020
Zoetermeer	3,510
Zoeterwoude	26,871
Zuid-Holland (province)	610,350
Zuidhorn	10,140
Zuidplas	54,328
Zundert	104,949
Zutphen	95,940

Zwartewaterland	23,712
Zwijndrecht	47,541
Zwolle	149,097

COLOPHON

Editorial: BNG Bank

Design & production: Ron Goos, Rotterdam

Photography: Thijs Wolzak

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