# Interim Report 2013

BNG BANK

BANK

## PROFILE

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

BNG Bank's mission has been translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for its shareholders. Maintaining an excellent credit rating and retaining an excellent funding position, as well as managing the bank's business as effectively and efficiently as possible, are necessary prerequisites in this endeavor. Corporate Responsibility is intrinsic to BNG Bank's core activities.

BNG Bank makes a **sustainable** contribution to minimizing the costs of social provisions for the public.

BNG Bank's clients primarily comprise local authorities and public sector institutions in the areas of social housing, health care, education and public utilities. BNG Bank provides customized financial services, ranging from loans and advances, consultancy, payment services, electronic banking and asset management. 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.

Founded in 1914, the bank is a statutory two-tier company under Dutch law ('structuurvennootschap'). All the bank's shareholders are Dutch public authorities. 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.

Subsequent to the State, the bank is one of the largest issuers in the Netherlands. BNG-issued debt securities are rated AAA by Standard & Poor's (S&P), Aaa by Moody's and AAA by Fitch. ■

**This is an unofficial translation of the 'BNG Bank Halfjaarbericht 2013' (Dutch Interim Report 2013) which is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.**

# Report of the Executive Board

# Report of the Executive Board

In the first half of 2013, BNG Bank posted a net profit of EUR 123 million, down EUR 36 million on the same period in 2012. The interest result – the bank's core result – showed a slight increase of EUR 13 million. The result financial transactions came under pressure because of a change in the valuation method of derivatives, in line with the valuation now customary in the market; this gave rise to an incidental unrealized result of EUR 27 million negative. The bank also posted an additional impairment of a little over EUR 20 million on a participation.

New long-term lending during the reporting period amounted to EUR 5.7 billion, the same as in the first half of 2012. The volume and the distribution among the client sectors are in line with the bank's forecast. BNG Bank's social importance is underlined by the bank's persistently high share in the total demand for new loans from the client sectors. In 2013, client demand primarily relates to the refinancing of existing loans. As a result of the economic conditions and the announced cutbacks local governments, housing associations and healthcare institutions are very reluctant to make new investments. During the period under review, the long-term loan portfolio increased further by EUR 1.0 billion to EUR 82.1 billion, partly due to the payment of the principal amounts of loans contracted in earlier years. Compared with the first half of 2012, the average volume of short-term lending to clients grew by EUR 0.5 billion to EUR 5.6 billion, partly on account of the exceptionally low short-term interest rates.

In July 2013, the Lower House of the Dutch parliament adopted the bill which obliges municipal and provincial authorities to invest their liquidity surpluses with the Agency of the Ministry of Finance. Expectations are that the bill will be debated by the Upper House in September and will become law in January 2014. In the event of a liquidity surplus, BNG Bank will facilitate a daily automatic settlement with the treasury for its clients. At the express request of the municipal and provincial authorities themselves, the new legislation allows that excess liquidities may also be put towards the financing of other municipal and provincial authorities. The bank is examining the options available under this provision

**New long-term lending during the reporting period was at the same level as in the first half of 2012. The volume and the distribution among the client sectors are in line with the bank's forecast.**

for offering long-term investments to clients with a liquidity surplus. The bank cooperates closely with the Ministry of Finance to ensure an optimal implementation.

For both refinancing and lending purposes, BNG Bank raised a total of EUR 7.7 billion (2012: EUR 9.8 billion) in long-term funding in the period under review, among other things by issuing four benchmark loans (in euros and US dollars) ranging in size from 1.25 to 1.75 billion. The intermittent and gradual subsidence of the turmoil in the international capital markets increased the availability of new long-term funding on favorable terms. This enabled the bank to greatly extend the weighted average maturity of the new long-term funding compared with the same period in 2012, thus further improving its liquidity profile. In addition, the triple-A ratings allowed the bank to meet its short-term financing needs on very attractive conditions. Many parties looking for a safe investment still place their temporary surpluses with BNG Bank.

The interest result for the first half year was up by EUR 13 million on the same period in 2012, to EUR 254 million. This increase was boosted by a profit of EUR 11 million on redemption and repurchase of long-term loans initiated by clients and investors. Furthermore, the margin on the long-term loan portfolio showed a slight increase, partly on account of the relatively large client demand for very long-term loans in recent years.

The result financial transactions was EUR 49 million negative in the period under review (first half of 2012: EUR 9 million negative). As of this year, BNG Bank applies the 'Overnight Index Swap (OIS)' curve when valuing the swaps used by the bank in hedging exchange rate and currency risks. The use of this curve, which is compiled on the basis of overnight interest rates, has become market practice, because the overnight interest rate is also used in determining the interest allowance for the collateral exchanged daily with the financial counterparties with which the swaps were concluded. The transition to OIS valuation led to an incidental unrealized result of EUR 27 million negative. The result financial transactions was boosted by the decreasing credit and liquidity risk spreads on loans to public authorities and institutions in the peripheral euro countries. This is the main reason why the bank posted a net unrealized result of EUR 21 million positive (first half of 2012: EUR 16 million negative) on interest-bearing securities and structured loans in the Financial assets at fair value through the income statement balance sheet item. The result financial transactions from unrealized market value adjustments of transactions involved in a hedge accounting relationship amounted to EUR 41 million negative in the first half of 2013 (first half of 2012: EUR 5 million positive). This sizeable fall is primarily attributable to the sharp rise in long-term interest rates in the second quarter of 2013, caused by the rise in interest rates in the United States.

The **triple A-ratings** allowed the bank to meet its short-term financing needs on very attractive conditions. Many parties looking for a safe investment still place their temporary surpluses with BNG Bank.

The uncertainty concerning the moment and the pace at which the US central bank will reverse the monetary easing has been the driving force behind this interest rate increase. Although the changed valuation of derivatives has made the bank's result on hedge accounting more volatile, hedge accounting continues to be very effective. Positive and negative results will completely cancel each other out in the longer term. The remainder of the result financial transactions amounted to EUR 2 million negative (first half of 2012: EUR 2 million positive) on account of the rise in long-term interest rates.

At EUR 13 million, the commission result is the same as that for the first half of 2012. The contribution of more than EUR 3 million by BNG Vermogensbeheer to the commission result was also on par with the result in the same period of the previous year.

As stated in the annual report 2012, the bank took into account a further loss on its participating interest in Transdev-BNG-Connexxion Holding BV (TBCH). During the period under review, the bank recorded an additional impairment of a little over EUR 20 million on its participating interest in TBCH. TBCH was obliged by contract to buy the remaining 33% of the shares in Connexxion Holding NV from the Dutch State for the price that was paid in 2007 for 67% of the shares, increased by the interest due for the intervening period. The fair value of these shares is on a considerably lower level as a result of the developments in the market for public transport.

Despite the rather bleak outlook for the main client groups, the bank released EUR 2 million of the incurred loss provision. This release was prompted primarily by the settlement of two items whereby the provision created earlier had exceeded the final loss of EUR 8 million. The slight increase in the risks relating to the loan portfolio was compensated by the decrease in the total volume of credit risk-bearing exposures.

Total operating expenses increased by EUR 1 million to EUR 31 million compared with the same period in 2012. This increase is primarily due to higher costs of hiring external staff to support the bank's (IT) projects.

The balance sheet total decreased by EUR 4.5 billion to EUR 137.7 billion in the first half of 2013. Compared with the end of 2012, the Loans and advances item rose by EUR 0.4 billion to EUR 91.1 billion, primarily on account of an increase in long-term exposures. The main reason for the drop in the balance sheet total is the strong rise in long-term interest rates in June 2013. This reduced the value of the swap transactions concluded for the purpose of hedging currency and exchange rate risks and of the associated collateral obligations and hedge entries. The accounting consequences primarily take the form of decreases in the items Amounts due from banks (reduction of collateral), Other financial assets, Debt securities and Other financial liabilities. The item Cash and balances with the central banks went up by EUR 1.6 billion to EUR 4.4 billion, in anticipation of relatively large repayment obligations in July. The item Financial assets available-for-sale increased by EUR 0.6 billion to EUR 9.6 billion, which is in line with the expansion of the bank's liquidity portfolio.

In the period under review the bank's equity grew by more than EUR 0.1 billion to EUR 2.9 billion. The 2012 dividend pay-out is counterbalanced by a positive development of both the revaluation reserve and the cash flow hedge reserve. Both reserves increased because of the cautious restore of confidence in the sustainability of the euro.

BNG Bank's solvency further increased during the period under review. The BIS Tier 1 ratio went up to 22.8% because of the net profit for the period under review, while the volume of the risk-weighted assets remained relatively stable. The leverage ratio remained unchanged at 2.0%. At the end of June 2013, the new Basel III regulations (CRD IV) were adopted by the European Parliament. Following the date of commencement in January 2014, the manner of calculating the solvency ratios will change somewhat. The BIS Tier 1 ratio will slightly decrease under Basel III, due to the expansion of the risk-weighted amount by a so-called Credit Valuation Adjustment (CVA) for derivatives. Furthermore, as of 2018 it will no longer be permitted to eliminate the revaluation reserve in calculating both the BIS Tier 1 ratio and the leverage ratio under Basel III. The minimum obligatory level of the leverage ratio as at the end of 2017 has not been determined yet. It is generally assumed that this minimum will be 3%, as proposed by the Basel Committee. The European Banking Authority (EBA) has been instructed to issue a proposal by 2016 for the level of the ratio, with due regard for the different business models of banks. Until further notice, BNG Bank expects that the minimum level will be set at 3%. The bank believes that it can achieve this minimum level by means of the retained profit for the period up to and including 2017 and a limited issue of hybrid debt instruments. In this context the bank, which primarily attracts its funding on the capital market, also closely follows the current discussions regarding the possible 'bail-in' regulations for the various types of creditors of the bank.

BNG Bank's long-term funding needs in 2013 are also expected to be on par with the level required in 2012. The bank aims to maintain its **strong liquidity profile** by attracting funding with relatively long maturity.

At the end of the General Meeting of Shareholders, which was held on April 22, 2013, Mrs. H.G.O.M. Berkers stepped down from the Supervisory Board. The simultaneous appointment of Mrs. P.H.M. Hofsté (Chief Financial & Risk Officer of APG Group) brought the composition of the Supervisory Board back in line with the profile.

The outlook for the bank's core client sectors is not particularly positive. This causes reluctance when it comes to new investments. Nevertheless, the bank expects that the level of new long-term lending in 2013 will be comparable with that of 2012, primarily as a result of the refinancing of existing loans.

BNG Bank's long-term funding needs in 2013 are also expected to be on par with the level required in 2012. The bank aims to maintain its strong liquidity profile by attracting funding with relatively long maturity. The credit and liquidity risk spreads which the bank has to pay remain sensitive to developments within Europe. The developments on the international capital markets during the period under review give cause for optimism about attracting long-term funding at relatively favorable spreads.

In light of the economic outlook it cannot be ruled out that several debtors may no longer be able to perform their payment obligations. The bleak outlook for the Dutch economy and the uncertainty about government cutbacks also put pressure on a very limited part of the high-quality loan portfolio. In addition, the economic developments in Portugal and Spain remain a cause for concern. This may necessitate an addition to the incurred loss provision or impairment.

The cost level of the bank is expected to rise slightly as a result of the large slew of new regulations that needs to be implemented in the bank's systems and processes. This process requires both a temporary and a structural increase in the workforce. Consolidated operating expenses of EUR 66 million are expected in 2013.

BNG Bank has a positive outlook on the development of the core result. The bank expects the interest result for 2013 to exceed the figure for 2012 owing to the growth of the total portfolio of the bank, the slightly higher returns achieved in the long-term portfolio and the steep interest-rate curve that is expected to persist. The result financial transactions will also in 2013 remain volatile, partly due to the development of the European debt crisis. In view of all uncertainties, the bank does not consider it wise to make a statement regarding the expected 2013 net profit.

## DECLARATION OF RESPONSIBILITY

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

The Hague, August 23, 2013

Executive Board

**C. VAN EYKELENBURG**
**CHAIRMAN**

**J.J.A. LEENAARS**

**J.C. REICHARDT**

# Consolidated interim financial statements

# CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2013

Amounts in millions of euros

| | 30-06-2013 | 31-12-2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and balances with the central banks | 4,360 | 2,834 |
| Amounts due from banks | 9,239 | 10,171 |
| Financial assets at fair value through the income statement | 3,322 | 3,476 |
| Other financial assets | 19,746 | 25,824 |
| Financial assets available-for-sale | 9,646 | 9,018 |
| Loans and advances | 91,136 | 90,725 |
| Investments in associates and joint ventures | 59 | 89 |
| Property and equipment | 18 | 18 |
| Other assets | 132 | 73 |
| **TOTAL ASSETS** | **137,658** | **142,228** |
| **LIABILITIES** | | |
| Amounts due to banks | 5,296 | 6,223 |
| Financial liabilities at fair value through the income statement | 2,633 | 2,730 |
| Other financial liabilities | 16,096 | 18,692 |
| Debt securities | 98,648 | 99,424 |
| Funds entrusted | 11,838 | 12,139 |
| Subordinated debts | 33 | 33 |
| Other liabilities | 193 | 235 |
| Total liabilities | 134,737 | 139,476 |
| Share capital | 139 | 139 |
| Share premium reserve | 6 | 6 |
| Revaluation reserve | 163 | 103 |
| Cash flow hedge reserve | 0 | −69 |
| Other reserves | 2,490 | 2,241 |
| Net profit | 123 | 332 |
| Equity | 2,921 | 2,752 |
| **TOTAL LIABILITIES AND EQUITY** | **137,658** | **142,228** |

# CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

| | FIRST HALF OF 2013 | | FIRST HALF OF 2012 | |
|---|---|---|---|---|
| – Interest income | 725 | | 1,172 | |
| – Interest expense | 471 | | 931 | |
| Interest result | | 254 | | 241 |
| Results from associates and joint ventures | | 0 | | 0 |
| – Commission income | 16 | | 16 | |
| – Commission expenses | 3 | | 3 | |
| Commission result | | 13 | | 13 |
| Result financial transactions | | −49 | | −9 |
| Other results | | 2 | | 3 |
| **TOTAL INCOME** | | **220** | | **248** |
| Staff costs | | 18 | | 18 |
| Other administrative expenses | | 12 | | 11 |
| Depreciation | | 1 | | 1 |
| **TOTAL OPERATING EXPENSES** | | **31** | | **30** |
| Impairments | | 18 | | 6 |
| **PROFIT BEFORE TAX** | | **171** | | **212** |
| Taxes | | −48 | | −53 |
| **NET PROFIT** | | **123** | | **159** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

| | FIRST HALF OF 2013 | | FIRST HALF OF 2012 | |
|---|---|---|---|---|
| **NET PROFIT** | | **123** | | **159** |
| **RECYCLABLE RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | | | |
| Changes in cash flow hedge reserve | | 69 | | 125 |
| Changes in revaluation reserve for financial assets available-for-sale: | | | | |
| – unrealized value adjustments | 61 | | 83 | |
| – realized value adjustments transferred to income statement | −1 | | −4 | |
| | | 60 | | 79 |
| | | **129** | | **204** |
| **NON-RECYCLABLE RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | | | |
| Changes to actuarial gains and losses | | 0 | | 0 |
| **RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | **129** | | **204** |
| **TOTAL** | | **252** | | **363** |

# CONSOLIDATED CASH FLOW STATEMENT [1]

Amounts in millions of euros — Page 1/2

| | FIRST HALF OF 2013 | | FIRST HALF OF 2012 | |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | 171 | | 212 | |
| Adjusted for: | | | | |
| – Depreciation | 1 | | 1 | |
| – Impairments | 18 | | 5 | |
| – Unrealized results through the income statement | 47 | | 14 | |
| Cash flow generated from operations | | 237 | | 232 |
| Changes in amounts due from and due to banks (not due on demand) | −65 | | 551 | |
| Changes in loans and advances | 960 | | 1,639 | |
| Changes in funds entrusted | 358 | | 1,673 | |
| Changes in derivatives | 168 | | 609 | |
| Corporate income tax paid/received | −158 | | 11 | |
| Other changes from operating activities | −313 | | −301 | |
| | | 950 | | 4,182 |
| **TOTAL CASH FLOW FROM OPERATING ACTIVITIES [2]** | | **1,187** | | **4,414** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Investments and acquisitions: | | | | |
| – Financial assets at fair value through the income statement and financial assets available-for-sale | −2,165 | | −1,081 | |
| – Associates and joint ventures | −2 | | −1 | |
| – Property and equipment | 0 | | – | |
| | | −2,167 | | −1,082 |
| Disposals, repayments and redemptions: | | | | |
| – Financial assets at fair value through the income statement and financial assets available-for-sale | 1,773 | | 803 | |
| | | 1,773 | | 803 |
| **TOTAL CASH FLOW FROM INVESTING ACTIVITIES** | | **−394** | | **−279** |

# CONSOLIDATED CASH FLOW STATEMENT [1]

Amounts in millions of euros

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| | FIRST HALF OF 2013 | | FIRST HALF OF 2012 | |
|---|---|---|---|---|
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Amounts received on account of: | | | | |
| – Debt securities | 21,004 | | 16,421 | |
| – Financial liabilities at fair value through the income statement | 1 | | – | |
| | | 21,005 | | 16,421 |
| Amounts paid on account of: | | | | |
| – Debt securities | −20,132 | | −18,719 | |
| – Financial liabilities at fair value through the income statement | −116 | | – | |
| – Subordinated debts | −1 | | −2 | |
| – Dividend paid | −83 | | −64 | |
| | | −20,332 | | −18,785 |
| **TOTAL CASH FLOW FROM FINANCING ACTIVITIES** | | 673 | | −2,364 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | 1,466 | | 1,771 |
| Cash and cash equivalents as at January 1 | | 2,833 | | 5,022 |
| **CASH AND CASH EQUIVALENTS AS AT JUNE 30** | | 4,299 | | 6,793 |
| Cash and cash equivalents as at June 30 are comprised of: | | | | |
| – Cash and balances with the central banks | | 4,360 | | 6,795 |
| – Cash equivalents in the ‘Amounts due from banks’ item | | 25 | | 3 |
| – Cash equivalents in the ‘Amounts due to banks’ item | | −86 | | −5 |
| | | 4,299 | | 6,793 |

1 The indirect method has been applied.

2 Interest received amounted to EUR 3,924 million (2012: EUR 2,987 million), while interest paid amounted to EUR 3,766 million (2012: EUR 2,769 million).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

FIRST HALF OF 2013

| | SHARE CAPITAL | SHARE PREMIUM RESERVE | REVALU-ATION RESERVE | CASH FLOW HEDGE RESERVE | OTHER RESERVES | UNAPPRO-PRIATED PROFIT | TOTAL |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE** | 139 | 6 | 103 | −69 | 2,241 | 332 | 2,752 |
| Realized results | | | | | | 123 | 123 |
| Unrealized results | | | 60 | 69 | | | 129 |
| Dividend payment | | | | | −83 | | −83 |
| Appropriation of profit from previous year | | | | | 332 | −332 | – |
| **CLOSING BALANCE** | **139** | **6** | **163** | **0** | **2,490** | **123** | **2,921** |

FIRST HALF OF 2012

| | SHARE CAPITAL | SHARE PREMIUM RESERVE | REVALU-ATION RESERVE | CASH FLOW HEDGE RESERVE | OTHER RESERVES | UNAPPRO-PRIATED PROFIT | TOTAL |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE** | 139 | 6 | −271 | −282 | 2,049 | 256 | 1,897 |
| Realized results | | | | | | 159 | 159 |
| Unrealized results | | | 79 | 125 | | | 204 |
| Dividend payment | | | | | −64 | | −64 |
| Appropriation of profit from previous year | | | | | 256 | −256 | – |
| **CLOSING BALANCE** | **139** | **6** | **−192** | **−157** | **2,241** | **159** | **2,196** |

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# Selected **notes**

# Selected notes to the consolidated 2013 Interim Report

## GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared and issued for publication by the Executive Board on August 23, 2013. BNG Bank is a statutory two-tier company under Dutch law ('structuurvennootschap'). 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, the Netherlands and has no branches.

## ACCOUNTING PRINCIPLES

The consolidated 2013 Interim Report was prepared on the basis of the going-concern principle. This Interim Report comprises the interim figures of the parent company and of all subsidiaries over which BNG Bank has control. BNG Bank's consolidated interim figures were prepared in accordance with the accounting principles and computation methods applied to the 2012 financial statements, except for the changes effective as of 2013, and are presented according to IAS 34 'Interim Financial Reporting' as adopted by the European Union. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2012 Annual Report. In preparing the consolidated 2013 Interim Report, the same system in respect of significant estimates and methods was applied as in preparing the consolidated financial statements, with the exception of the multi curve hedge accounting method introduced in 2013.

All amounts stated in the Interim Report are presented in millions of euros, unless stated otherwise. The euro is used as the functional currency and reporting currency of BNG Bank. Income is recognized insofar as 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.

BNG Bank has applied the following new IFRS standards, amendments and interpretations adopted by the European Union with effect from January 1, 2013. The application of these standards, amendments and interpretations has affected the disclosures in the 2013 Interim Report. This is particularly due to the amendments pursuant to IFRS 13. The following amendments were applied:

- Annual Improvements Cycle 2009-2011: this improvement cycle does not affect the reporting of the bank.
- IAS 1 Amendment – Presentation of Items of Other Comprehensive Income: the unrealized results in the consolidated statement of comprehensive income were divided into two groups. On the one hand there are items which can be reclassified in the future from equity to the income statement ('recycled'), and on the other hand there are items which can never undergo such reclassification ('non-recycled'). In addition, BNG Bank opted to present the unrealized results that are subject to taxation as amounts after tax.
- IAS 19 Revised – 'Employee Benefits': this concerns the discontinuation of the 'corridor method' in respect of defined-benefit pension plans and supplementary disclosures such as quantitative sensitivity analyses. The option to treat the group sectoral pension plan as a defined-contribution pension plan still applies. It is not required to include additional disclosures, because of the lack of pension fund information. The impact for the bank is limited. In line with the standard, this revision was applied retrospectively, whereby the comparative figures were restated.
- IFRS 7 Amendment – 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities': the application of this amendment relates to disclosures of balance sheet offsetting and has very limited consequences for BNG Bank.

- IFRS 13 – ‘Fair Value Measurement’: this standard introduces an unambiguous fair value concept based on the transfer price (‘exit price’). This standard indicates how the fair value must be determined for assets and/or liabilities that are measured at fair-value in the balance sheet. This standard also requires disclosures about the fair value of financial instruments. IFRS 13 incorporates the disclosure requirements under IFRS 7 regarding the fair value of financial instruments. The essence of IFRS 13 is that the fair value measurement of an asset or liability is not an entity-specific measurement, but rather a measurement made from the perspective of the market parties. Partly in furtherance of this standard, BNG Bank has tightened the valuation of those derivatives for which the bank has an agreement with the counterparty for the daily exchange of collateral. These swaps, which the bank uses for hedging currency and interest rate risks and therefore generally holds to maturity, are valued as of 2013 based on the ‘Overnight Index Swap (OIS)' curve, which is compiled on the basis of overnight interest rates. This change in valuation has an impact on the volatility of the annual result. In order to mitigate this volatility, BNG Bank has adjusted its hedge accounting by introducing multi curve hedge accounting.
  With regard to interest rate swaps without a daily exchange of collateral, the bank applies a ‘Credit Valuation Adjustment’ (CVA) for the counterparty’s credit risk when measuring the fair value. BNG Bank’s ‘Debit Valuation Adjustment’ (DVA) and ‘Own Credit Adjustment’ (OCA) in relation to its own credit risk are zero because of its excellent credit rating. In line with the standard, this adjustment was applied prospectively.

In this Interim Report, BNG Bank has decided against early adoption of new or adjusted standards and interpretations – endorsed by the European Union – whose application is mandatory with regard to financial years commencing on or after January 1, 2014.

There are no IFRS standards, adjustments and interpretations which are effective as of January 1, 2013 but have not been endorsed by the EU.

## SEGMENTED INFORMATION

IFRS 8 ‘Operating Segments’ stipulates that segmentation is dependent on the way in which the organization is managed. The Executive Board does not distinguish between different segments when deciding on the deployment of resources and performance measurement. This Interim Report does not contain any segmented information.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Pursuant to the IAS 1 Amendment 'Presentation of Items of Other Comprehensive Income', there has been a change in the presentation of the consolidated statement of comprehensive income compared with the 2012 Interim Report. In the 2013 Interim Report, the amounts after tax are presented in groups of items which can be reclassified in the future from equity to the income statement ('recycled') and items which can never undergo such reclassification ('non-recycled').

## ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are prepared in accordance with the same accounting principles as the consolidated 2013 Interim Report, with the exception of the application of new IFRS standards and interpretations endorsed by the European Union.

## FAIR VALUE MEASUREMENT METHODS APPLIED TO FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following improvements in input factors for measuring fair values of financial assets and liabilities were already introduced in 2012:

- Cross-currency basis spread as the liquidity risk spread for the volatility risk attached to the exchange of interest rates between two different currencies;
- Credit Valuation Adjustment (CVA) for swaps whereby the bank does not have an agreement with the counter-party for the daily exchange of collateral.

As of 2013, the following improvements were introduced pursuant to IFRS 13 and the changes in common market practice:

- OIS discounting for interest rate swaps with counterparties with whom the bank has agreements to exchange collateral on a daily basis;
- OIS discounting for cross-currency swaps whereby reliable OIS curves in the foreign currency are available; and
- multi curve (micro and portfolio) fair value hedge accounting.

## DIVIDEND

The proposed dividend of EUR 83 million for the 2012 financial year was paid out to the shareholders in the first half of 2013 following the General Meeting of Shareholders. BNG Bank will not pay out an interim dividend on the result for the first half of 2013.

## LOANS AND ADVANCES

During the period under review, BNG Bank did not make any adjustments to its loan conditions that gave rise to losses.

## FINANCIAL ASSETS AVAILABLE-FOR-SALE

At the end of January 2013 the Dutch State, exercising a put option, sold the remainder of its shares in Connexxion Holding NV to Transdev-BNG-Connexxion Holding BV (TBCH). Pursuant to the right it was granted in 2007, BNG Bank decided not to participate in the purchase of these shares. This sale decreased the bank's shareholding in TBCH from 25% to 13.6%. As a result, this participating interest is now classified in the balance sheet under Financial assets available-for-sale instead of Associates and joint ventures.

## EMPLOYEE BENEFITS (UNDER OTHER LIABILITIES)

As of January 1, 2013, IAS 19 Employee Benefits has been amended. Where BNG Bank is concerned, IAS 19R has implications especially for the mortgage interest rate discount scheme, which is treated as a defined-benefit pension plan on the basis of its characteristics. The main implications for BNG Bank relate to the discontinuation of the 'corridor method' in respect of defined-benefit pension plans, which means that all the actuarial results must be recognized directly in the equity and will never be reclassified to the income statement in subsequent periods ('non-recycled'). The discontinuation of the 'corridor method' had an impact on the mortgage interest rate discount provision, in that EUR 0.6 million in unrealized actuarial profits (before tax) was transferred from the provision to the equity (Other reserves) as at January 1, 2013. A deferred tax liability was recorded in respect of this change in equity. The comparative figures have been adjusted accordingly. As the additional disclosure requirements in respect of a defined-benefit plan are not significant for the bank, given the nature and volume of the mortgage interest rate discount provision (amounting to EUR 1.8 million as at June 30, 2013), they have not been explained in more detail in this Interim Report. BNG Bank still meets the requirements for treating its multi-employer pension plan as a defined-contribution pension plan and has not included any additional disclosures due to the lack of pension fund information.

## DEBT SECURITIES

As part of its long-term funding, BNG Bank has issued a total of EUR 7.7 billion in long-term debt securities in the first half of 2013 (2012: EUR 7.9 billion). In the period under review, a total of EUR 6.1 billion (2012: EUR 5.8 billion) in long-term debt securities has been repaid.

## INTEREST-BEARING SECURITIES (IBS) PORTFOLIO

BNG Bank maintains an IBS portfolio for liquidity management purposes. This portfolio consists of high-quality bonds, most of which are accepted as collateral by the central bank. The table below features an overview of the relevant assets on the basis of outstanding principal amounts, categorized by type and rating level. The assets are recognized in the balance sheet items Amounts due from banks, Loans and advances, Financial assets available-for-sale and Financial assets at fair value through the income statement. All transactions reported under 'IBS with government guarantee' were issued to local government agencies or public organizations. These exposures are classified on the basis of 'ultimate rating', which means that they are featured under the guarantor's rating.

| | 30-06-2013 | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **DOMESTIC** | | | | | | |
| Government bonds | 1,600 | | | | | 1,600 |
| IBS with government guarantee | 86 | | | | | 86 |
| IBS with National Mortgage Guarantee | 277 | 233 | 322 | | | 832 |
| Covered bonds | 310 | | 75 | | | 385 |
| Bouwfonds | | | 200 | | | 200 |
| Medium Term Notes | | | 77 | | | 77 |
| Asset-Backed Securities | 298 | 11 | 3 | | | 312 |
| Corporate bonds | | | 172 | | | 172 |
| Financial institution bonds | | 154 | | | | 154 |
| | 2,571 | 398 | 849 | – | – | 3,818 |
| **FOREIGN** | | | | | | |
| Government bonds | 1,874 | 606 | 450 | 245 | | 3,175 |
| Supranational | 760 | 301 | | | | 1,061 |
| European Investment Bank | 572 | | | | | 572 |
| IBS with government guarantee | 827 | 345 | 140 | 22 | 205 | 1,539 |
| Covered bonds | 100 | | 437 | 602 | 95 | 1,234 |
| Medium Term Notes | | 58 | | | 60 | 118 |
| Asset-Backed Securities | 29 | 213 | 254 | 701 | 271 | 1,468 |
| Corporate bonds | | | 228 | 167 | | 395 |
| Financial institution bonds | | | 58 | | | 58 |
| | 4,162 | 1,523 | 1,567 | 1,737 | 631 | 9,620 |
| **TOTAL** | 6,733 | 1,921 | 2,416 | 1,737 | 631 | 13,438 |

| | 31-12-2012 | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **DOMESTIC** | | | | | | |
| Government bonds | 1,000 | | | | | 1,000 |
| IBS with government guarantee | 88 | | | | | 88 |
| IBS with National Mortgage Guarantee | 677 | 244 | 338 | | | 1,259 |
| Covered bonds | 385 | 75 | | | | 460 |
| Bouwfonds | | | 450 | | | 450 |
| Medium Term Notes | | | 77 | | | 77 |
| Asset-Backed Securities | 427 | 12 | 4 | | | 443 |
| Corporate bonds | | | 171 | | | 171 |
| Financial institution bonds | | 151 | | | | 151 |
| | 2,577 | 482 | 1,040 | – | – | 4,099 |
| **FOREIGN** | | | | | | |
| Government bonds | 1,543 | 355 | 843 | 50 | | 2,791 |
| Supranational | 417 | 306 | | | | 723 |
| European Investment Bank | 535 | | | | | 535 |
| IBS with government guarantee | 1,088 | 71 | 146 | 24 | 209 | 1,538 |
| Covered bonds | 125 | 41 | 477 | 657 | | 1,300 |
| Medium Term Notes | | 62 | | | 60 | 122 |
| Asset-Backed Securities | 32 | 227 | 785 | 395 | 109 | 1,548 |
| Corporate bonds | | 192 | 123 | 167 | | 482 |
| Financial institution bonds | | 61 | | | | 61 |
| | 3,740 | 1,315 | 2,374 | 1,293 | 378 | 9,100 |
| **TOTAL** | 6,317 | 1,797 | 3,414 | 1,293 | 378 | 13,199 |

## LONG-TERM EXPOSURES TO GIIPS COUNTRIES

BNG Bank has long-term exposures to the so-called GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). BNG Bank will not invest in new long-term exposures (with underlying assets) in these countries. Short-term exposures (to banks) are possible for liquidity management purposes. The table below provides information regarding BNG Bank's long-term exposures based on principal amounts broken down by country of origin and rating level. Unlike the overview of interest-bearing securities, this also involves long-term private lending.

| | | | | | 30-06-2013 |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVESTMENT GRADE | TOTAL |
| **IRELAND** | | | | | |
| Asset-Backed Securities | 21 | 20 | 282 | 7 | 330 |
| | 21 | 20 | 282 | 7 | 330 |
| **ITALY** | | | | | |
| Government bonds | | 450 | 195 | | 645 |
| Asset-Backed Securities | 73 | 61 | 4 | 88 | 226 |
| IBS with government guarantee | | | 22 | 27 | 49 |
| | 73 | 511 | 221 | 115 | 920 |

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| | 30-06-2013 | | | | |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **PORTUGAL** | | | | | |
| Asset-Backed Securities | | 71 | | | 71 |
| Loans and advances | | | | 131 | 131 |
| Covered bonds | | | 25 | | 25 |
| IBS with government guarantee | | | | 132 | 132 |
| | – | 71 | 25 | 263 | 359 |
| **SPAIN** | | | | | |
| Government bonds | | | 50 | | 50 |
| Asset-Backed Securities | 108 | 103 | 415 | 176 | 802 |
| Loans and advances | | | 100 | 20 | 120 |
| Covered bonds | | 437 | 577 | 95 | 1,109 |
| IBS with government guarantee | 1 | 15 | | 46 | 62 |
| Medium Term Notes | | | | 60 | 60 |
| | 109 | 555 | 1,142 | 397 | 2,203 |
| **TOTAL** | 203 | 1,157 | 1,670 | 782 | 3,812 |

| | 31-12-2012 | | | | |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **IRELAND** | | | | | |
| Asset-Backed Securities | 22 | 228 | 92 | 7 | 349 |
| | **22** | **228** | **92** | **7** | **349** |
| **ITALY** | | | | | |
| Government bonds | | 843 | | | 843 |
| Asset-Backed Securities | 78 | 88 | 74 | | 240 |
| IBS with government guarantee | | | 24 | 28 | 52 |
| | **78** | **931** | **98** | **28** | **1,135** |
| **PORTUGAL** | | | | | |
| Asset-Backed Securities | | 74 | | | 74 |
| Loans and advances | | | | 132 | 132 |
| Covered bonds | | | 25 | | 25 |
| IBS with government guarantee | | | | 134 | 134 |
| | **–** | **74** | **25** | **266** | **365** |

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| | | | | | 31-12-2012 |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **SPAIN** | | | | | |
| Government bonds | | | 50 | | 50 |
| Asset-Backed Securities | 115 | 395 | 229 | 102 | 841 |
| Loans and advances | | | 102 | 20 | 122 |
| Covered bonds | | 477 | 632 | | 1,109 |
| IBS with government guarantee | 2 | 21 | | 46 | 69 |
| Medium Term Notes | | | | 60 | 60 |
| | **117** | **893** | **1,013** | **228** | **2,251** |
| **TOTAL** | **217** | **2,126** | **1,228** | **529** | **4,100** |

The long-term exposures to GIIPS countries consist of government bonds, covered bonds, Medium Term Notes, loans and advances to statutory clients and investments in the lowest-risk tranches of Asset-Backed Securities. The decrease in the total exposure expressed as outstanding principal amounts is EUR 288 million. This decrease consists entirely of regular contractual repayments. No new transactions were concluded in the first half of 2013.

The fair value of the long-term exposures in GIIPS countries outstanding as at June 30, 2013 increased by EUR 106 million to EUR 3,570 million compared with the end of 2012. This increase is most clearly visible in respect of the Spanish covered bonds, whose total fair value went up by more than EUR 45 million while the nominal value remained unchanged.

The Irish exposure consists of the securitization of claims in Germany, Spain and Portugal. All exposures reported under the items ‘Loans and advances’ and ‘IBS with government guarantee’ were issued to local government agencies or public organizations. These exposures are classified on the basis of ‘ultimate rating’, which means that they are featured under the guarantor’s rating. The government guarantees concern guarantees provided by national, provincial or municipal authorities.

## RESULT FINANCIAL TRANSACTIONS

The result financial transactions was EUR 49 million negative in the first half of 2013. This result was boosted by the decreasing credit and liquidity risk spreads on interest-bearing securities from and structured loans to public authorities and institutions in the peripheral euro countries. On the other hand, the result financial transactions was negatively influenced by the transition to the OIS-based valuation of derivatives. In addition, the sharp increase in long-term interest rates in June 2013 contributed to unrealized market value adjustments of transactions involved in hedge accounting.

| | FIRST HALF OF 2013 | FIRST HALF OF 2012 |
|---|---|---|
| **MARKET VALUE ADJUSTMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:** | | |
| – Investments | 8 | −7 |
| – Derivatives with clients (CVA) | 2 | – |
| – Structured loans | 11 | −9 |
| | **21** | **−16** |
| **RESULT FROM HEDGE ACCOUNTING:** | | |
| – Financial assets involved in a fair value hedge accounting relationship | −2,868 | 2,240 |
| – Financial liabilities involved in a micro fair value hedge accounting relationship | 3,177 | −809 |
| – Derivatives involved in a hedge accounting relationship | −350 | −1,426 |
| | **−41** | **5** |
| **RESULT FROM TRANSITION TO OIS-BASED VALUATION OF DERIVATIVES WITH DAILY COLLATERAL EXCHANGE** | −27 | – |
| **OTHER MARKET VALUE ADJUSTMENTS** | −2 | 2 |
| **TOTAL** | **−49** | **−9** |

## IMPAIRMENTS

The impairments in the first half of 2013 amounted to EUR 18 million, which is due primarily to the impairment of the participating interest in TBCH. This resulted from the put option on Connexxion shares being exercised by the Dutch State and the decrease of the shareholding by BNG Bank from 25% to 13.6%.

| | FIRST HALF OF 2013 | FIRST HALF OF 2012 |
|---|---|---|
| **THE IMPAIRMENTS CONSIST OF:** | | |
| – Addition to the incurred loss provision for loans and advances | – | 6 |
| – Release from the incurred loss provision for loans and advances | –2 | – |
| – Impairment of associates and joint ventures | 20 | – |
| **TOTAL** | **18** | **6** |

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the transfer price (not adjusted for transaction costs) which, regardless of the company's 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. Starting point is that the valuation must be viewed from the perspective of market parties, whereby only specific characteristics and limitations of the financial instrument may be taken into consideration.

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 collateral received, guarantees and maturities. The risk profiles of individual clients and financial instruments are assessed at least once a quarter. If necessary, the credit risk spread will be adjusted.

With regard to interest rate swaps whereby the bank does not have an agreement with the counterparty for the daily exchange of collateral, a CVA for the counterparty's credit risk is applied in the calculation of the market value. In respect of its own credit risk, the bank has set the DVA for liability derivatives and the OCA for instruments recognized under Financial liabilities at fair value through the income statement at zero because of its excellent credit rating.

The bank has grouped its receivables on the basis of comparability of credit risk and has allocated a risk-related spread to each group. In addition, the spread is dependent on the maturity of a financial instrument. 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 aforementioned 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 only has recurring fair values. These are fair values that are measured on an ongoing basis for processing in the financial position at the end of each reporting period. Non-recurring fair values are fair values that are measured only in specific circumstances for processing in the financial position.

| BALANCE SHEET VALUES VERSUS FAIR VALUES | 30-06-2013 BALANCE SHEET VALUE | 30-06-2013 FAIR VALUE | 31-12-2012 BALANCE SHEET VALUE | 31-12-2012 FAIR VALUE |
|---|---|---|---|---|
| Cash and balances with the central banks | 4,360 | 4,360 | 2,834 | 2,834 |
| Amounts due from banks and Loans and advances | 100,375 | 110,781 | 100,896 | 113,806 |
| Financial assets at fair value through the income statement | 3,322 | 3,322 | 3,476 | 3,476 |
| Financial assets available-for-sale | 9,646 | 9,646 | 9,018 | 9,018 |
| Other financial assets* | 19,746 | 10,786 | 25,824 | 14,474 |
| **TOTAL FINANCIAL ASSETS** | **137,449** | **138,895** | **142,048** | **143,608** |
| Amounts due to banks and Funds entrusted | 17,134 | 18,040 | 18,362 | 18,636 |
| Subordinated debts | 33 | 47 | 33 | 49 |
| Debt securities | 98,648 | 99,141 | 99,424 | 100,376 |
| Financial liabilities at fair value through the income statement | 2,633 | 2,633 | 2,730 | 2,730 |
| Other financial liabilities | 16,096 | 16,096 | 18,692 | 18,692 |
| **TOTAL FINANCIAL LIABILITIES** | **134,544** | **135,957** | **139,241** | **140,483** |

* The item Other financial assets includes a market value adjustment of EUR 8,960 million positive (2012: EUR 11,350 million positive) by virtue of portfolio fair value hedging, which relates almost entirely to the items Amounts due from banks and Loans and advances. This amount concerns the accounting recognition of the effective parts of the hedged market value adjustments.

| FINANCIAL INSTRUMENTS BY CATEGORIES | FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT | DERIVATIVES | DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP | FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP | FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP | FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST | TOTAL 30-06-2013 |
|---|---|---|---|---|---|---|---|
| – Cash and balances with the central banks | | | | | | 4,360 | 4,360 |
| – Amounts due from banks | | | | | 691 | 8,548 | 9,239 |
| – Financial assets at fair value through the income statement | 2,440 | 882 | | | | | 3,322 |
| – Other financial assets | | | 10,786 | | 8,960 | | 19,746 |
| – Financial assets available-for-sale | | | | 566 | 9,080 | | 9,646 |
| – Loans and advances | | | | | 72,772 | 18,364 | 91,136 |
| TOTAL ASSETS | 2,440 | 882 | 10,786 | 566 | 91,503 | 31,272 | 137,449 |

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| FINANCIAL INSTRUMENTS BY CATEGORIES | FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT | DERIVATIVES | DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST | TOTAL 30-06-2013 |
|---|---|---|---|---|---|---|---|
| – Amounts due to banks | | | | | | 5,296 | 5,296 |
| – Financial liabilities at fair value through the income statement | 1,519 | 1,114 | | | | | 2,633 |
| – Other financial liabilities | | | 16,096 | | | | 16,096 |
| – Debt securities | | | | | 77,711 | 20,937 | 98,648 |
| – Funds entrusted | | | | | 5,521 | 6,317 | 11,838 |
| – Subordinated debts | | | | | | 33 | 33 |
| TOTAL LIABILITIES | 1,519 | 1,114 | 16,096 | – | 83,232 | 32,583 | 134,544 |

| FINANCIAL INSTRUMENTS BY CATEGORIES | FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT | DERIVATIVES | DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST | TOTAL 31-12-2012 |
|---|---|---|---|---|---|---|---|
| – Cash and balances with the central banks | | | | | | 2,834 | 2,834 |
| – Amounts due from banks | | | | | 946 | 9,225 | 10,171 |
| – Financial assets at fair value through the income statement | 2,603 | 873 | | | | | 3,476 |
| – Other financial assets | | | 14,474 | | 11,350 | | 25,824 |
| – Financial assets available-for-sale | | | | 1,006 | 8,012 | | 9,018 |
| – Loans and advances | | | | | 72,280 | 18,445 | 90,725 |
| **TOTAL ASSETS** | **2,603** | **873** | **14,474** | **1,006** | **92,588** | **30,504** | **142,048** |

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| | | | | | | | 31-12-2012 |
|---|---|---|---|---|---|---|---|
| FINANCIAL INSTRUMENTS BY CATEGORIES | FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT | DERIVATIVES | DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATION-SHIP | FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST | TOTAL |
| – Amounts due to banks | | | | | | 6,223 | 6,223 |
| – Financial liabilities at fair value through the income statement | 1,308 | 1,422 | | | | | 2,730 |
| – Other financial liabilities | | | 18,692 | | | | 18,692 |
| – Debt securities | | | | | 79,104 | 20,320 | 99,424 |
| – Funds entrusted | | | | | 5,748 | 6,391 | 12,139 |
| – Subordinated debts | | | | | | 33 | 33 |
| **TOTAL LIABILITIES** | **1,308** | **1,422** | **18,692** | **–** | **84,852** | **32,967** | **139,241** |

## FAIR VALUE HIERARCHY

The table below provides an overview of the way in which the fair value is measured for transactions recognized at fair value in the balance sheet based on the following hierarchical classification, which the bank has embedded in its valuation process.

- **LEVEL 1:** valuation based on (unadjusted) quoted market prices, where possible 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 are a reflection of 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 valuation techniques using (directly/indirectly) observable market data other than quoted market prices as used at Level 1.
- **LEVEL 3:** valuation based on valuation techniques using non-observable market data.

The right classification is established at the conclusion of a transaction, based on the relevant valuation characteristics. At least once a quarter, the classification of a transaction is evaluated and, if necessary, adjusted during the periodical valuation process.

Financial instruments which are not traded in an active market, for which no market is maintained or for which there is no quoted market price in an active market, are measured on the basis of quoted prices of comparable instruments. If quoted prices of comparable or identical instruments are not available, 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 (Levels 2 and 3). Input for these models is based on objectively verifiable market prices (mid-market prices), forward pricing, market yield curves, correlations, volatilities, credit spreads (derived from the prices of credit derivatives (Credit Default Swaps)), counterparty creditworthiness and other factors, estimates and assumptions which market parties would use to determine the price (Level 2), or is largely based on non-observable market data (Level 3).

| STATEMENT OF FAIR VALUE LEVELS | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| | | | | 30-06-2013 |
| Financial assets at fair value through the income statement | | 2,248 | 1,074 | 3,322 |
| Other financial assets | | 10,786 | | 10,786 |
| Financial assets available-for-sale | 4,760 | 4,658 | 228 | 9,646 |
| **TOTAL ASSETS** | **4,760** | **17,692** | **1,302** | **23,754** |
| Financial liabilities at fair value through the income statement | | 2,391 | 242 | 2,633 |
| Other financial liabilities | | 16,096 | | 16,096 |
| **TOTAL LIABILITIES** | **–** | **18,487** | **242** | **18,729** |

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| | | | | 31-12-2012 |
| Financial assets at fair value through the income statement | | 2,353 | 1,123 | 3,476 |
| Other financial assets | | 14,474 | | 14,474 |
| Financial assets available-for-sale | 3,752 | 4,634 | 632 | 9,018 |
| **TOTAL ASSETS** | **3,752** | **21,461** | **1,755** | **26,968** |
| Financial liabilities at fair value through the income statement | | 2,470 | 260 | 2,730 |
| Other financial liabilities | | 18,692 | | 18,692 |
| **TOTAL LIABILITIES** | **–** | **21,162** | **260** | **21,422** |

## SIGNIFICANT MOVEMENTS IN FAIR VALUE LEVELS

The increase of approximately EUR 1 billion in Financial assets available-for-sale in Level 1 is attributable to new investments made in Dutch and Belgian government bonds in behalf of the liquidity portfolio. The decrease of approximately EUR 400 million in Financial assets available-for-sale in Level 3 is attributable to the expiration (contractual repayment) of a securitization of Dutch mortgages under the National Mortgage Guarantee scheme (NHG) with a nominal value of EUR 400 million. The decrease in Other financial assets in Level 2 may be viewed in combination with the decrease in Other financial liabilities in Level 2. On balance, there is a decrease of more than EUR 1 billion. This change is attributable to the fair value adjustments of derivatives involved in a hedge accounting relationship as a result of the rise in long-term interest rates.

## TRANSFERS OF LEVELS 1 AND 2 ASSETS AND LIABILITIES

During the first half of 2013, no assets or liabilities were transferred from Level 1 to Level 2 or vice versa. The same applies to all of the year 2012.

| STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES | FIRST HALF OF 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT | | FINANCIAL ASSETS AVAILABLE-FOR-SALE | | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT |
| **OPENING BALANCE** | | **1,123** | | **632** | | **–260** |
| Results recognized in the income statement: | | | | | | |
| – Interest result | 7 | | 2 | | –2 | |
| – Unrealized results in Result financial transactions | –19 | | – | | 19 | |
| – Realized results in Result financial transactions | 0 | | – | | – | |
| | | –12 | | 2 | | 17 |
| Unrealized value adjustments recognized in the Revaluation reserve | | | | –2 | | |
| Investments | | – | | 1 | | – |
| Cash flows | | –37 | | –416 | | 1 |
| Participating interest reclassified to Financial assets available-for-sale | | | | 11 | | |
| Transferred to Level 2 | | – | | – | | – |
| Transferred from Level 2 | | – | | – | | – |
| Derivatives transferred from assets to liabilities and vice versa | | – | | – | | – |
| **CLOSING BALANCE** | | **1,074** | | **228** | | **–242** |

| STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES | | | 2012 |
|---|---|---|---|
| | FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT | FINANCIAL ASSETS AVAILABLE-FOR-SALE | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT |
| **OPENING BALANCE** | **883** | **616** | **−2** |
| Results recognized in the income statement: | | | |
| – Interest result | 17 | 10 | −2 |
| – Unrealized results in Result financial transactions | 37 | – | −10 |
| – Realized results in Result financial transactions | 2 | 0 | – |
| | 56 | 10 | −12 |
| Unrealized value adjustments recognized in the Revaluation reserve | | 31 | |
| Investments | – | – | – |
| Cash flows | −64 | −25 | 2 |
| Transferred to Level 2 | – | – | – |
| Transferred from Level 2 | – | – | – |
| Derivatives transferred from assets to liabilities and vice versa | 248 | – | −248 |
| **CLOSING BALANCE** | **1,123** | **632** | **−260** |

During the first half of 2013, one small investment was made in Level 3 items. This involves a purchase by BNG Vermogensbeheer of participating interests in one of its own investment funds. The bank's shareholding in TBCH decreased from 25% to 13.6% in the first half of 2013. Because the bank's shareholding has dropped below the 20% level, this participating interest was reclassified from the Associates and joint ventures item to the Financial assets available-for-sale item. No items were transferred from Level 2 to Level 3, or vice versa, either in the first half of 2013 or throughout 2012. The Level 3 items primarily concern interest-bearing securities that are rarely traded in the market. Because of the lack of trade in these interest-bearing securities, the observable market data available for similar securities is not representative of the current fair value. The fair value of Level 3 transactions is determined on the basis of observable market data adjusted by management assumptions concerning credit and liquidity risk spreads.

## SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 TO A PARALLEL INTEREST RATE SHIFT

The sensitivity of the fair value to changes in the Level 3 input factors was determined by measuring the effect based on four parallel interest rate shifts. These input factors are not interdependent.

| | 30-06-2013 | | | | |
|---|---|---|---|---|---|
| | FAIR VALUE | IMPACT ON FAIR VALUE OF AN INTEREST RATE SHIFT OF | | | |
| | | +10 BP | -10 BP | +100 BP | -100 BP |
| Financial assets at fair value through the income statement | 1,074 | −3 | 2 | −25 | 29 |
| Financial assets available-for-sale | 228 | −1 | 1 | −10 | 11 |
| Financial liabilities at fair value through the income statement | −242 | 5 | −4 | 39 | −51 |
| **TOTAL** | **1,060** | **1** | **−1** | **4** | **−11** |

| | 31-12-2012 | | | | |
|---|---|---|---|---|---|
| | FAIR VALUE | IMPACT ON FAIR VALUE OF AN INTEREST RATE SHIFT OF | | | |
| | | +10 BP | -10 BP | +100 BP | -100 BP |
| Financial assets at fair value through the income statement | 1,123 | −3 | 3 | −28 | 32 |
| Financial assets available-for-sale | 632 | −1 | 1 | −11 | 12 |
| Financial liabilities at fair value through the income statement | −260 | 5 | −5 | 42 | −54 |
| **TOTAL** | **1,495** | **1** | **−1** | **3** | **−10** |

BNG Bank hedges nearly all its interest rate risks through swaps. This means that fair value effects of interest-bearing securities caused by a change in the interest curve alone have a very limited impact on the bank's result and equity. On the other hand, interest rate shifts caused by a change in credit and/or liquidity risk spreads do have a direct impact on result and equity.

| | 30-06-2013 | 31-12-2012 |
|---|---|---|
| OFF-BALANCE SHEET COMMITMENTS | | |
| Contingent liabilities | 188 | 289 |
| Irrevocable facilities | 6,589 | 7,370 |

The off-balance sheet commitments consist primarily of contingent liabilities and irrevocable facilities. Contingent liabilities are all stated commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. Irrevocable facilities involve irrevocable commitments which can lead to the granting of loans and advances. BNG Bank states contingent liabilities at the maximum accounting loss that would need to be compensated in the event of the counterparty defaulting.

## EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that require disclosure or adjustments to the figures in the Interim Report. ■

The Hague, August 23, 2013

### EXECUTIVE BOARD

**C. VAN EYKELENBURG,** CHAIRMAN
**J.J.A. LEENAARS**
**J.C. REICHARDT**

### SUPERVISORY BOARD

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**MRS. S.M. DEKKER,** VICE-CHAIRMAN (AND SECRETARY)
**H.H. APOTHEKER**
**T.J.F.M. BOVENS**
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**J.J. NOOITGEDAGT**
**R.J.J.M. PANS**
**MRS. M. SINT**

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# Review Report

# Review Report

## TO: THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF N.V. BANK NEDERLANDSE GEMEENTEN

### INTRODUCTION

We have reviewed the accompanying consolidated interim financial information of N.V. Bank Nederlandse Gemeenten, The Hague, which comprises the consolidated balance sheet as at June 30, 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the six-month period then ended June 30, 2013, and the notes. Management of the company is responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the interim financial information based on our review.

### SCOPE

We conducted our review of the interim financial information in accordance with Dutch law, including the Dutch Accounting Standard 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the entity'. A review of interim financial information consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with Dutch auditing standards and does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information for the six-month period ended June 30, 2013 is not prepared, in all material aspects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. ■

Amsterdam, August 23, 2013

**ERNST & YOUNG ACCOUNTANTS LLP**
**SIGNED BY W.J. SMIT**

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