# Interim Report 2014

BANK

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## PROFILE

BNG Bank is the bank of and for public 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 is 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 prerequisites in this endeavor. Corporate Social 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 area of social housing, healthcare, education and public utilities. BNG Bank provides customized financial services, ranging from loans and advances, consultancy, payment services, electronic banking to asset management. BNG Bank 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.

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

**This is an unofficial translation of the 'Halfjaarbericht 2014' (Dutch 2014 Interim Report) and 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

BNG Bank's net profit rose by EUR 30 million to EUR 153 million compared with the same period in 2013. The increase was mainly due to an improved result on financial transactions, almost entirely due to unrealized market value adjustments.

At EUR 4.7 billion the volume of new long-term lending in the reporting period was almost EUR 1 billion lower than in the first half year of 2013. The bank's persistently high share in the total demand for financing in its main client sectors in conjunction with this lower volume reflects a decline in client demand. The decline is most prominent in the housing association sector. The amendment of the Housing Act proposed by the government will curtail the housing associations' field of business, partly due to which the housing associations are postponing their investments. The demand for financing from the municipal and provincial authorities in the reporting period was comparable with demand in the same period in the previous year. This largely relates to the refinancing of existing loans. The decentralization of tasks from the central government to the municipalities, such as youth care and long-term care, is making local authorities reticent about making new investments. This is aggravated by the efficiency savings attached to the decentralization. In addition the healthcare sector is facing challenges due to the continuous stream of new and often complex regulations. The introduction of those regulations has caused uncertainty about the accuracy of revenue recognition by healthcare institutions. The auditors therefore have not yet signed off the institutions' 2013 financial statements. Demand in the first half of 2014 was down on the same period in 2013. As a result of the decline in total client demand the long-term loan portfolio decreased by EUR 0.5 billion to EUR 82.7 billion in the reporting period. The average volume of short-term lending to clients also fell in the first half of 2014. Compared with the same period in 2013 average volume fell by EUR 0.6 billion to EUR 5 billion.

In the reporting period BNG Bank raised **EUR 9.6 billion** in **long-term funding**.

BNG Bank is designated as a significant bank under the Single Supervisory Mechanism (SSM) and is therefore expected to fall under the direct supervision of the European Central Bank as from autumn 2014. For this reason the bank is currently undergoing a Comprehensive Assessment, which includes a review into the quality of the bank's assets (AQR) and a stress test. The Single Resolution Mechanism (SRM) was designed to complement the SSM. One of the main developments arising from this is the EU directive for the recovery and resolution of credit institutions, the Bank Recovery and Resolution Directive (BRRD), which was finalized in the reporting period. Under the BRRD the authorities concerned may seek contributions from, among others, holders of senior unsecured bonds and large depositors for the resolution of banks. This is meant to prevent only the 'tax payer' from having to pay the bill for insurmountable problems at banks. This has led Moody's and Fitch to assign a negative outlook to BNG Bank's reconfirmed triple A rating. The EU member states are currently working on implementing the directive. The rating agencies are awaiting to see how the various member states will ultimately implement the BRRD. The bank is actively engaged in the discussion concerning implementation and is also in dialogue with the rating agencies on this matter.

In the reporting period BNG Bank raised EUR 9.6 billion (2013: EUR 7.7 billion) in long-term funding for refinancing and lending purposes. This means that the bank expects to have fulfilled around 80% of its funding requirements for 2014, among other things, by issuing five benchmark loans (in euros and American dollars) representing a volume of 1.5 billion each. The international capital markets' growing confidence in the euro and the European banking sector has brought about a further improvement in the availability of long-term funding at good rates. The bank furthermore continued to fulfill its short-term liquidity requirements at attractive rates.

The interest result for the reporting period fell by EUR 19 million to EUR 235 million compared with the same period in 2013. The decrease is partly attributable to an EUR 8 million lower result on long-term loan buy-offs and buy-backs initiated by clients and investors. Furthermore the interest result was negatively affected by the relatively short maturity periods for new long-term lending as well as lower revenues from the low interest rate position due to the interest rate outlook. The unique interest rate cut by the European Central Bank (ECB) in June – to a negative deposit rate – has since put downward pressure on the margin of the bank's short-term lending portfolio.

The result on financial transactions was EUR 7 million negative in the reporting period, a sharp improvement over the first half of 2013 which reflected a negative result of EUR 49 million. The large negative result in the first half of 2013 was partly attributable to the one-off effect of the changeover to the Overnight Index Swap Curve (OIS) for the valuation of swaps. Furthermore negative unrealized market value adjustments were recorded on transactions involved in a hedge accounting relationship as a result of a sharp rise in the long-term interest rates in the second quarter of 2013. In the reporting period the contrastive and sharp fall in interest rates brought about positive unrealized market value adjustments on transactions involved in a hedge accounting relationship amounting to EUR 23 million. Although the changed valuation of derivatives has increased the volatility of the bank's result on hedge accounting, the latter still is highly effective. The result on financial transactions for the reporting period is negative on balance, due primarily – contrary to the overall picture – to the increased liquidity risk spreads of a limited number of interest-bearing securities and loans in the balance sheet item Financial assets at fair value through the income statement.

The result on financial transactions shows a **sharp improvement** compared to the result for the same period last year.

The commission result rose by EUR 1 million to EUR 14 million relative to the first half year of 2013. Commission income from credit facilities, structured loans and payment services was up by EUR 2 million. The contribution of BNG Vermogensbeheer to the commission result declined by EUR 1 million to EUR 2 million. BNG Vermogensbeheer revenues are under pressure as a result of the implementation of the mandatory treasury banking regime for the local authorities.

The aftermath of the crisis has to a limited extent also had financial consequences for BNG Bank's high-quality loan portfolio. In the reporting period two loans totaling around EUR 0.5 million were settled and charged to the loan loss provision. Three new individual provisions for outstanding loans account for the addition of EUR 6 million to the loan loss provision which now stands at EUR 48 million. Furthermore the equity invested in a BNG Gebiedsontwikkeling participation was written down in full, due to persistent uncertainty about the completion of the development project undertaken by this venture.

Regular operating expenses rose by around EUR 1 million to almost EUR 32 million compared with the same period in 2013. The increase was mainly attributable to the structural expansion of the bank's internal activities following the constant stream of new laws and regulations. Direct staff costs and the costs of hiring external staff rose as a result of the necessary expansion of the workforce. In addition to regular operating expenses, expenses of almost EUR 1 million were incurred for the transition to ECB supervision.

The balance sheet total reflected an increase of EUR 9 billion to EUR 140.2 billion in the first half of 2014. Compared with the end of 2013 the item Loans and advances fell by EUR 1.4 billion to EUR 90.7 billion. The item Financial assets available-for-sale rose by EUR 2.2 billion to EUR 11.8 billion due to the expansion of the bank's liquidity portfolio. The increase in the balance sheet total is mainly due to the sharp decrease in long-term interest rates in the reporting period. The accounting effects are largely reflected in the higher Amounts due from banks item (an increase in paid-up collateral), Debt securities and Funds entrusted (higher value due to the lower market interest rate) as well as Other financial assets and liabilities (arising from the increase in the value of derivatives transactions for the purpose of hedging currency and interest rate risk).

The bank's equity grew by almost EUR 0.2 billion to EUR 3.6 billion in the reporting period. The increase is almost on par with net profit for the first half year. The dividend payment for 2013 was offset by an improvement in both the revaluation and cash flow hedge reserves. Both reserves increased also as a result of increasing confidence in the euro.

BNG Bank's already strong solvency position continued to improve during the reporting period. The Common Equity Tier 1 ratio rose from 23.7% to 24.3% due to the net profit for the reporting period while the volume of risk-weighted assets remained relatively stable[1]. The leverage ratio including net profit was 2.3%, unchanged compared with the end of 2013. From 2018 the revaluation reserve may no longer be excluded from the calculation of both ratios. The Dutch Central Bank

[1] This figure differs from the percentage reported to the regulatory authority. Under the new CRD IV regulations annual profits (after dividend) may only be included following the auditor's review and approval from the regulatory authority. The same applies to the leverage ratio calculation.

**BNG Bank's already strong solvency position continued to improve during the reporting period.**

has decided to phase in the introduction of the effects of the revaluation reserve. If the total revaluation reserve is included in the calculation, this would result in a leverage ratio of 2.5% as at 30 June 2014.

The minimum obligatory level of the leverage ratio as at the end of 2017 has not yet been determined. It is generally assumed that the minimum level 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 will assume a minimum ratio of 3%. The bank believes that it can achieve the minimum level by means of the retained profit for the period up to and including 2017 and a limited issue of hybrid debt instruments.

During the General Meeting of Shareholders held on 24 April 2014, Messrs. H.H. Apotheker and R.J.J.M. Pans retired from the Supervisory Board. With the appointment of Mrs. J. Kriens (Chairman of the Board of Directors of the Association of Netherlands Municipalities), Mr. C.J. Beuving (former Chairman of the Executive Board of Friesland Bank) and Mr. L.M.M. Bolsius (Mayor of the Municipality of Amersfoort) at the same meeting the composition of the Supervisory Board is in line with its profile.

The financial prospects for the bank's core client sectors remain hardly positive. The unfavorable economic climate coupled with spending cuts or tax and rate increases offer little room for new investments. A number of parties in the housing association sector have more or less been compelled to reduce the size of their housing portfolio. If the sale of rented housing desired by the government picks up, the refinancing of maturing credits will no longer simply be a matter of course. Against this background BNG Bank also expects that the volume of new long-term lending will be lower than in the past.

In the light of the economic outlook for the bank's clients it cannot be ruled out that a few debtors may no longer be able to meet their payment obligations. An addition to the loan loss provision or an additional impairment therefore cannot be ruled out in the second half of the year.

BNG Bank's long-term funding requirements in 2014 are expected to total around EUR 12 billion, which is EUR 3 billion lower than in 2013. The bank aims to maintain its robust liquidity profile by raising funds with relatively long-term maturities.

The bank's cost base will rise as a result of the numerous new regulations that have to be implemented in the bank's systems and processes. Regular consolidated operating expenses are expected to amount to around EUR 65 million for the full-year 2014, excluding the expenses arising from the transition to ECB supervision. It is not yet clear how the costs of ECB supervision will be passed on to the institutions that are subject to supervision. The costs of external support for the transition process together with the (additional) costs of Dutch Central Bank and ECB supervision could rise to around EUR 4 million in 2014.

The 2014 interest result is expected to turn out lower than that for 2013. The interest income on the bank's own funds has been under pressure for several years due to the persistently low interest rate. Furthermore the relatively short maturity of new long-term loans and the low interest rate position will continue to have an effect in the second half of the year. The bank's loan portfolio and corresponding margin are not expected to grow in the years ahead. In the future the result on financial transactions will also remain sensitive to the level of economic recovery in the Eurozone. In view of the prolonged uncertainties, the bank does not consider it wise to make a statement regarding the expected 2014 net profit.

## DECLARATION OF RESPONSIBILITY

In the opinion of the Executive Board, the Interim Report provides a true and fair view of the assets, the 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, 22 August 2014

Executive Board

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

**J.J.A. LEENAARS**

**J.C. REICHARDT**

# Consolidated interim financial statements

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# CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

| | 30-06-2014 | 31-12-2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and balances with the central banks | 1,375 | 1,467 |
| Amounts due from banks | 10,973 | 8,509 |
| Financial assets at fair value through the income statement | 3,938 | 3,530 |
| Other financial assets | 21,304 | 15,874 |
| Financial assets available-for-sale | 11,750 | 9,607 |
| Loans and advances | 90,740 | 92,074 |
| Investments in associates and joint ventures | 53 | 53 |
| Property and equipment | 17 | 17 |
| Other assets | 81 | 52 |
| **TOTAL ASSETS** | **140,231** | **131,183** |
| **LIABILITIES** | | |
| Amounts due to banks | 3,565 | 3,939 |
| Financial liabilities at fair value through the income statement | 3,715 | 3,553 |
| Other financial liabilities | 19,136 | 15,086 |
| Debt securities | 98,545 | 94,828 |
| Funds entrusted | 11,218 | 10,033 |
| Subordinated debts | 32 | 32 |
| Other liabilities | 411 | 282 |
| Total liabilities | 136,622 | 127,753 |
| Share capital | 139 | 139 |
| Share premium reserve | 6 | 6 |
| Revaluation reserve | 243 | 180 |
| Cash flow hedge reserve | 366 | 332 |
| Other reserves | 2,702 | 2,490 |
| Net profit | 153 | 283 |
| Total equity | 3,609 | 3,430 |
| **TOTAL LIABILITIES AND EQUITY** | **140,231** | **131,183** |

## CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

| | FIRST HALF OF 2014 | | FIRST HALF OF 2013 | |
|---|---|---|---|---|
| – Interest income | 711 | | 725 | |
| – Interest expenses | 476 | | 471 | |
| Interest result | | 235 | | 254 |
| Results from associates and joint ventures | | 1 | | 0 |
| – Commission income | 18 | | 16 | |
| – Commission expenses | 4 | | 3 | |
| Commission result | | 14 | | 13 |
| Result on financial transactions | | −7 | | −49 |
| Other results | | 1 | | 2 |
| **TOTAL INCOME** | | **244** | | **220** |
| Staff costs | | 18 | | 18 |
| Other administrative expenses | | 13 | | 12 |
| Depreciation | | 1 | | 1 |
| **TOTAL OPERATING EXPENSES** | | **32** | | **31** |
| Impairments | | 8 | | 18 |
| **PROFIT BEFORE TAX** | | **204** | | **171** |
| Taxes | | −51 | | −48 |
| **NET PROFIT** | | **153** | | **123** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

| | FIRST HALF OF 2014 | | FIRST HALF OF 2013 | |
|---|---|---|---|---|
| **NET PROFIT** | | **153** | | **123** |
| **RECYCLABLE RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | | | |
| Changes in cash flow hedge reserve | | 34 | | 69 |
| Changes in revaluation reserve for financial assets available-for-sale: | | | | |
| – unrealized value adjustments | 65 | | 61 | |
| – realized value adjustments transferred to the income statement | −2 | | −1 | |
| | | 63 | | 60 |
| | | **97** | | **129** |
| **NON-RECYCLABLE RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | | | |
| Changes to actuarial gains and losses | | 0 | | 0 |
| **RESULTS RECOGNIZED DIRECTLY IN EQUITY** | | **97** | | **129** |
| **TOTAL** | | **250** | | **252** |

# CONSOLIDATED CASH FLOW STATEMENT [2]

Amounts in millions of euros

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| | FIRST HALF OF 2014 | | FIRST HALF OF 2013 | |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | 204 | | 171 | |
| Adjusted for: | | | | |
| – Depreciation | 1 | | 1 | |
| – Impairments | 8 | | 18 | |
| – Unrealized results through the income statement | 10 | | 47 | |
| Cash flow generated from operations | | 223 | | 237 |
| Changes in amounts due from banks (not due on demand) and loans and receivables | −1,335 | | 1,932 | |
| Changes in amounts due to banks (not due on demand) and funds entrusted | 293 | | −679 | |
| Changes in derivatives | −29 | | 168 | |
| Corporate income tax paid | −69 | | −158 | |
| Other changes from operating activities | 108 | | −313 | |
| | | −1,032 | | 950 |
| **TOTAL CASH FLOW FROM OPERATING ACTIVITIES [3]** | | **−809** | | **1,187** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investments and acquisitions: | | | | |
| – Financial assets at fair value through the income statement and financial assets available-for-sale | −2,200 | | −2,165 | |
| – Associates and joint ventures | −2 | | −2 | |
| – Property and equipment | 0 | | 0 | |
| | | −2,202 | | −2,167 |
| Disposals, repayments and redemptions: | | | | |
| – Financial assets at fair value through the income statement and financial assets available-for-sale | 1,104 | | 1,773 | |
| | | 1,104 | | 1,773 |
| **TOTAL CASH FLOW FROM INVESTING ACTIVITIES** | | **−1,098** | | **−394** |

Continued on next page

# CONSOLIDATED CASH FLOW STATEMENT [2]

Amounts in millions of euros

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| | FIRST HALF OF 2014 | | FIRST HALF OF 2013 | |
|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Amounts received on account of: | | | | |
| – Debt securities | 28,061 | | 21,004 | |
| – Financial liabilities at fair value through the income statement | 2 | | 1 | |
| | | 28,063 | | 21,005 |
| Amounts paid on account of: | | | | |
| – Debt securities | −26,109 | | −20,132 | |
| – Financial liabilities at fair value through the income statement | −69 | | −116 | |
| – Subordinated debts | −1 | | −1 | |
| – Dividend | −71 | | −83 | |
| | | −26,250 | | −20,332 |
| **TOTAL CASH FLOW FROM FINANCING ACTIVITIES** | | **1,813** | | **673** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **−94** | | **1,466** |
| Cash and cash equivalents as at 1 January | | 1,469 | | 2,833 |
| **CASH AND CASH EQUIVALENTS AS AT 30 JUNE** | | **1,375** | | **4,299** |
| Cash and cash equivalents as at 30 June comprise: | | | | |
| – Cash and balances with the central banks | | 1,375 | | 4,360 |
| – Cash equivalents in the Amounts due from banks item | | 2 | | 25 |
| – Cash equivalents in the Amounts due to banks item | | −2 | | −86 |
| | | **1,375** | | **4,299** |

2 The indirect method has been applied.

3 Interest received amounted to EUR 2,853 million (2013: EUR 3,924 million) and interest paid amounted to EUR 2,566 million (2013: EUR 3,766 million).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

**FIRST HALF OF 2014**

| | SHARE CAPITAL | SHARE PREMIUM RESERVE | REVALUATION RESERVE | CASH FLOW HEDGE RESERVE | OTHER RESERVES | UNAPPROPRIATED PROFIT | TOTAL |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE** | 139 | 6 | 180 | 332 | 2,490 | 283 | 3,430 |
| Net profit | | | | | | 153 | 153 |
| Unrealized results | | | 63 | 34 | | | 97 |
| Dividend payment | | | | | –71 | | –71 |
| Appropriation from previous year's profit | | | | | 283 | –283 | 0 |
| **CLOSING BALANCE** | 139 | 6 | 243 | 366 | 2,702 | 153 | 3,609 |

**FIRST HALF OF 2013**

| | SHARE CAPITAL | SHARE PREMIUM RESERVE | REVALUATION RESERVE | CASH FLOW HEDGE RESERVE | OTHER RESERVES | UNAPPROPRIATED PROFIT | TOTAL |
|---|---|---|---|---|---|---|---|
| **OPENING BALANCE** | 139 | 6 | 103 | –69 | 2,241 | 332 | 2,752 |
| Net profit | | | | | | 123 | 123 |
| Unrealized results | | | 60 | 69 | | | 129 |
| Dividend payment | | | | | –83 | | –83 |
| Appropriation from previous year's profit | | | | | 332 | –332 | 0 |
| **CLOSING BALANCE** | 139 | 6 | 163 | 0 | 2,490 | 123 | 2,921 |

# Selected **notes**

# Selected notes to the consolidated 2014 interim report

## GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared by and issued for publication by the Executive Board on 22 August 2014. 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 is established in The Hague, the Netherlands, and has no branches.

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

The consolidated 2014 Interim Report was prepared on the basis of the going-concern principle. This Interim Report comprises the interim figures of the parent company and all the 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 2013 Interim Report and the 2013 Annual Report, except for new or amended IFRS standards and interpretations, as adopted by the European Union and taking effect from 2014. These figures are presented in accordance with 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 2013 Annual Report. In preparing the consolidated 2014 Interim Report the same system with respect to significant estimates and methods was applied as in preparing the consolidated annual financial statements.

All amounts stated in this Interim Report are presented in millions of euros, unless stated otherwise. The euro is used as the functional 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.

## ACCOUNTING PRINCIPLES FOR CONSOLIDATION

Each year, BNG Bank prepares a consolidated Interim Report for the parent company and its subsidiaries. The Interim Reports of the parent company and its subsidiaries which are used to prepare the consolidated Interim Report are drawn up on 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 Interim Report. The consolidated Interim Report comprises all subsidiaries over which BNG Bank has control. Control exists if BNG Bank is, directly or indirectly through group companies, exposed to or entitled to variable returns due to its involvement and is able to influence these returns by exercising power over the activities of an entity. Power is deemed to exist if the share in existing (voting) rights, taking account of various contractual restrictions and potential (voting) rights, gives the right and power to control the activities which most significantly affect BNG Bank's returns. This equally applies in the event BNG Bank does not hold the majority of these (current and potential) rights. Group companies are consolidated in full from the date on which control has been acquired until such time as control ceases to exist or all related risks and benefits have been assigned to third parties. In determining whether BNG Bank has control over interests in investment funds, account is taken of the share and rights held by BNG Bank for its own account as a participant, as well as its role or that of its subsidiaries as a fund manager. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank.

## ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are prepared in accordance with the same accounting principles as the consolidated 2014 Interim Report.

## APPLICABLE LAWS AND REGULATIONS

BNG Bank has applied the new IFRS standards, amendments and interpretations adopted by the European Union with effect from 1 January 2014 set out below. The application of standards, amendments and interpretations referred to below affect the valuations, determination of the result and disclosures in the 2014 Interim Report. The following amendments were retrospectively applied:

- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities: Clarification of the conditions on which netting may take place, for central clearing in particular. BNG Bank does not yet use central clearing. No impact on BNG Bank's equity and result.
- Amendment to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets: This relates to an additional disclosure in the event a non-financial asset becomes impaired. BNG Bank neither has goodwill nor intangible fixed assets recorded in the balance sheet. No impact on BNG Bank's equity and result.
- Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting: When central clearing is used a hedge relationship can in certain circumstances continue to exist. BNG Bank does not yet use central clearing. No impact on BNG Bank's equity and result.
- IFRS 10 Consolidated Financial Statements: This provides a new definition for 'control' and supersedes IAS 27 and SIC 12. IFRS 10 does not contain any specific disclosure requirements. The bank has assessed the new consolidation model and concluded that it has no impact on BNG Bank's result and equity.
- IFRS 11 Joint Arrangements: Supersedes IAS 31 and SIC 13 and defines the valuation and determination of the nature of joint arrangements. Proportional consolidation is no longer permitted. In the case of a joint operation classification the share in the joint operation must be recorded in the balance sheet and in the case of a joint venture the equity method must be applied. IFRS 11 does not contain any specific disclosure requirements. The bank has assessed the new joint control model and concluded that its joint arrangements meet the criteria for the classification and valuation as joint ventures. BNG Bank already values its joint ventures according to the equity method. Therefore no adjustments are required. No impact on BNG Bank's equity and result.

- IFRS 12 Disclosure of Interests in Other Entities: The disclosure requirements under IAS 27, SIC 12, IAS 31 and SIC 13 have now been incorporated under this standard. The standard relates to the consolidated financial statements and sets out new disclosure requirements. These requirements do not apply to the Interim Report.
- Transition Guide IFRS 10, 11 and 12 (Amendment): Apart from a number of exemptions, the transition to IFRS 10, 11 and 12 was applied retrospectively to the extent applicable to the Interim Report.
- IAS 27 (Revised) Separate Financial Statements: Following the implementation of IFRS 10, IAS 27 only applies to the company financial statements and therefore does not affect the Interim Report. All subsidiaries, associates and joint ventures comply with the new standard and BNG Bank already recognizes its associates at cost. There are no new disclosure requirements and therefore no adjustments are required. No impact on equity, the result and disclosures in the company financial statements drawn up by the bank.
- IAS 28 (Revised) Investments in Associates and Joint Ventures: This applies to the consolidated financial statements. This standard states that associates that comply with the new IAS 28 standard and joint ventures that comply with the IFRS 11 standard should be valued according to the equity method. All investments in associates and joint ventures comply with these new standards and BNG Bank already values its joint ventures according to the equity method. Therefore no adjustments are required. No consequences for BNG Bank's equity and result.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities: BNG Bank and its subsidiary BNG Vermogensbeheer are not investment entities. No consequences for BNG Bank.
- IFRIC 21 – Interpretation 'Levies' (May 2013): This interpretation provides a further explanation of recording and valuing levies recognized on the basis of IAS 37. No detailed disclosures are required. This interpretation relates to the bank levy and the crisis levy. The bank recognizes these levies in accordance with IAS 37 and IFRIC 21.

BNG Bank has decided against the early adoption in this Interim Report of new or adjusted standards and interpretations, endorsed by the European Union, which will be mandatory for the financial years commencing on or after 1 January 2015.

The following IFRS standards, amendments and interpretations, which take effect after 1 January 2014 but have not yet been endorsed by the EU, have not been applied in the Interim Report:
- IAS 19 Amendment – Defined Benefit Plans: Employee Contributions;
- Improvements to IFRSs 2010-2012 cycle;
- Improvements to IFRSs 2011-2013 cycle;
- IFRS 9 – Financial Instruments.

## 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.

## DIVIDEND
The proposed dividend of EUR 71 million for the 2013 financial year was paid out to the shareholders in the first half of 2014 following the General Meeting of Shareholders. BNG Bank will not pay out an interim dividend on the result for the first half of 2014.

## FINANCIAL ASSETS OF WHICH THE CONTRACTUAL TERMS HAVE BEEN CHANGED AS A RESULT OF AN UNFAVORABLE FINANCIAL POSITION OF THE DEBTOR ('FORBEARANCE')
This relates to loans and advances carried at amortized cost and off-balance exposures of which the credit conditions have been changed in the debtor's favor, enabling the debtor to continue to meet his obligations. The following table does not include interest-bearing securities, since the bank is unable to change the conditions in those cases. In the second half of 2014 new regulations governing this issue will be finalized, following which the bank will adapt its procedures where necessary. The bank expects that the regulations will mainly clarify the criterion that the bank must also have suffered a (financial) disadvantage from the changes to the contractual terms. Pending the final regulations the bank decided to adopt a conservative approach when presenting the figures in the table below.

| INTERNAL RATING | LOANS & ADVANCES AND OFF-BALANCE SHEET EXPOSURE, EXCLUDING LOANS LOSS PROVISION | DIVISION IN % | EXPOSURE SUBJECT TO SOLVENCY REQUIREMENTS WITH MODIFIED CONTRACTUAL TERMS | SOLVENCY-FREE EXPOSURE WITH MODIFIED CONTRACTUAL TERMS |
|---|---|---|---|---|
| | | | | 30-06-2014 |
| 0 (solvency-free) | 58,191 | 56% | – | – |
| 1 to 11 | 41,438 | 40% | – | – |
| 12 to 13 | 2,769 | 3% | 131 | 92 |
| 14 to 17 | 222 | 0% | 106 | 23 |
| 18 to 19 | 757 | 1% | 94 | 633 |
| TOTAL | 103,377 | 100% | 331 | 748 |

| INTERNAL RATING | LOANS & ADVANCES AND OFF-BALANCE SHEET EXPOSURE, EXCLUDING LOANS LOSS PROVISION | DIVISION IN % | EXPOSURE SUBJECT TO SOLVENCY REQUIREMENTS WITH MODIFIED CONTRACTUAL TERMS | SOLVENCY-FREE EXPOSURE WITH MODIFIED CONTRACTUAL TERMS |
|---|---|---|---|---|
| | | | | 31-12-2013 |
| 0 (solvency-free) | 57,572 | 55% | – | – |
| 1 to 11 | 42,226 | 41% | – | – |
| 12 to 13 | 2,864 | 3% | 145 | 96 |
| 14 to 17 | 285 | 0% | 155 | 33 |
| 18 to 19 | 700 | 1% | 61 | 623 |
| TOTAL | 103,647 | 100% | 361 | 752 |

The financial assets which are not guaranteed by the government (and therefore subject to solvency requirements) and whose contractual terms have been changed as a result of an unfavorable financial position of the debtor, amounted to EUR 331 million as at mid-2014 (at the end of 2013: EUR 361 million). This accounts for 0.3% (at the end of 2013: 0.3%) of the total loan portfolio and concerns 19 debtors (at the end of 2013: 25 debtors).

## PROVISIONS POLICY

BNG Bank employs the following triggers to assess whether an individual loan loss provision is necessary:
- a debtor is assigned an internal rating of 14 of higher, or;
- a debtor is in arrears and/or has breached contractual terms for a period exceeding 90 days ('default').

The individual provision 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 counterparty's status, such as the Dutch municipal and provincial authorities. Furthermore, the bank has a collective provision based on a so-called Incurred But Not Reported (IBNR) model. For loans and advances that are subject to solvency requirements, this model calculates a provision based on factors such as the exposure amount and the debtor's rating. Lastly, for loans and advances that are not subject to solvency requirements due to a municipal or provincial authority guarantee, a provision is determined on the basis of an operational risk spread.

## LOANS AND ADVANCES OF WHICH THE CONTRACTUAL TERMS HAVE BEEN BREACHED AND/OR LOANS AND ADVANCES WITH AN INDIVIDUAL IMPAIRMENT (NON-PERFORMING)

Loans and advances of which the contractual terms have been breached by the debtor or for which an individual provision has been formed have an internal rating of 18 or 19. These loans and advances are assessed individually for impairment and are indeed impaired if the circumstances warrant it. The development of the provision of loans to these debtors is shown in the following table.

| | FIRST HALF OF 2014 | 2013 |
|---|---|---|
| Opening balance | 81 | 38 |
| Loans and advances in default for which no individual provision is required | 5 | 22 |
| Loans and advances in default for which individual provisions have been formed | 34 | 36 |
| Repayments on loans and advances in default | 0 | –1 |
| Write-downs | –6 | –14 |
| **CLOSING BALANCE** | **114** | **81** |

In the first half of 2014 three counterparties entered into default, for which individual provisions were made for the outstanding debts. The loans of two other counterparties were written down in the first half of 2014 (2013: 2).

## MATURITY ANALYSIS OF PAST DUE FINANCIAL ASSETS WITHOUT INDIVIDUAL IMPAIRMENT

| | 30-06-2014 | 31-12-2013 |
|---|---|---|
| Up to 30 days | 0 | 0 |
| 31 – 60 days | 0 | 0 |
| 61 – 90 days | 1 | 0 |
| Over 90 days | 4 | 3 |
| **TOTAL** | **5** | **3** |

The past due assets relate entirely to the Loans and advances balance sheet item.

## IMPAIRMENTS

Impairments in the first half of 2014 amounted to EUR 8 million (2013: EUR 18 million), due to individual provisions formed for three counterparties amounting to EUR 6 million and the impairment of a BNG Gebiedsontwikkeling participating interest of EUR 2 million.

| | FIRST HALF OF 2014 | FIRST HALF OF 2013 |
|---|---|---|
| IMPAIRMENTS CONSIST OF: | | |
| – Addition to the loan loss provision | 6 | – |
| – Reversal from the loan loss provision | – | –2 |
| – Impairments of associates and joint ventures | 2 | 20 |
| TOTAL | 8 | 18 |

## NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

BNG Bank has concluded netting and collateral agreements with counterparties for its derivative transactions. 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.

| | | | | | | | 30-06-2014 |
|---|---|---|---|---|---|---|---|
| | GROSS VALUE OF FINANCIAL ASSETS OR LIABILITIES PRIOR TO NETTING | GROSS VALUE OF FINANCIAL ASSETS OR LIABILITIES ELIGIBLE FOR NETTING | BALANCE SHEET VALUE OF FINANCIAL ASSETS OR LIABILITIES (AFTER NETTING) | VALUE OF FINANCIAL NETTING INSTRUMENT THAT DOES NOT COMPLY WITH IAS 32 (NETTING OF DERIVATIVES ON A COUNTER-PARTY BASIS) | EXPOSURE PRIOR TO COLLATERAL NETTING | VALUE OF FINANCIAL COLLATERAL THAT DOES NOT COMPLY WITH IAS 32 FOR NETTING PURPOSES | NET EXPOSURE |
| Derivatives assets * | 11,143 | – | 11,143 | −9,588 | 1,547 | −576 | 971 |
| Derivatives liabilities | −20,857 | – | −20,857 | 9,588 | −11,261 | 10,834 | −427 |
| **NET** | **−9,714** | **–** | **−9,714** | **–** | **−9,714** | **−10,258** | **544** |

| | | | | | | | 31-12-2013 |
|---|---|---|---|---|---|---|---|
| Derivatives assets * | 9,346 | – | 9,346 | −8,118 | 1,228 | −422 | 806 |
| Derivatives liabilities | −16,687 | – | −16,687 | 8,118 | −8,569 | 8,152 | −417 |
| **NET** | **−7,341** | **–** | **−7,341** | **–** | **−7,341** | **−7,730** | **389** |

* Excluding market value adjustments for hedge accounting of EUR 11,621 million (31-12-2013: EUR 7,601 million).

## DEBT SECURITIES

As part of its long-term funding activities, BNG Bank issued EUR 9.6 billion of long-term debt securities in the first half of 2014 (2013: EUR 7.7 billion). The total redemption value of long-term debt securities amounted to EUR 7.7 billion in the reporting period (2013: EUR 6.1 billion).

## 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 eligible 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 exposures reported under IBS with government guarantee were issued to regional governments or public organizations. These exposures are classified on an 'ultimate rating' basis, which means that they are featured under the guarantor's rating. The government guarantees concern guarantees provided by central or regional governments.

| | 30-06-2014 | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **DOMESTIC** | | | | | | |
| Government bonds | 1,800 | | | | | 1,800 |
| IBS with government guarantee | 83 | | | | | 83 |
| IBS with National Mortgage Guarantee | 527 | 128 | 368 | | | 1,023 |
| Covered bonds | 440 | 75 | | | | 515 |
| Medium Term Notes | | 19 | 58 | | | 77 |
| ABS/MBS | 234 | 11 | | | | 245 |
| Corporate bonds | | | 154 | | | 154 |
| | 3,084 | 233 | 580 | – | – | 3,897 |
| **FOREIGN** | | | | | | |
| Government bonds | 2,126 | 1,219 | | 247 | | 3,592 |
| Supranational bonds | 250 | 850 | | | | 1,100 |
| Multilateral Development Bank bonds | 747 | | | | | 747 |
| IBS with government guarantee | 737 | 611 | 24 | 19 | 389 | 1,780 |
| Covered bonds | 75 | | 277 | 807 | 50 | 1,209 |
| Medium Term Notes | | 62 | | | | 62 |
| ABS/MBS | 5 | 164 | 186 | 653 | 197 | 1,205 |
| Corporate bonds | | | 240 | 167 | | 407 |
| Financial institution bonds | | | 62 | | | 62 |
| Commercial Paper | 695 | | | | | 695 |
| | 4,635 | 2,906 | 789 | 1,893 | 636 | 10,859 |
| **TOTAL** | 7,719 | 3,139 | 1,369 | 1,893 | 636 | 14,756 |

| | 31-12-2013 | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **DOMESTIC** | | | | | | |
| Government bonds | 1,700 | | | | | 1,700 |
| IBS with government guarantee | 85 | | | | | 85 |
| IBS with National Mortgage Guarantee | 277 | 133 | 313 | | | 723 |
| Covered bonds | 390 | | 75 | | | 465 |
| Medium Term Notes | | 19 | 58 | | | 77 |
| ABS/MBS | 274 | 11 | 2 | | | 287 |
| Corporate bonds | | | 172 | | | 172 |
| | **2,726** | **163** | **620** | **–** | **–** | **3,509** |
| **FOREIGN** | | | | | | |
| Government bonds | 1,581 | 1,219 | | 247 | | 3,047 |
| Supranational bonds | 175 | 700 | | | | 875 |
| Multilateral Development Bank bonds | 722 | | | | | 722 |
| IBS with government guarantee | 602 | 577 | 128 | 21 | 202 | 1,530 |
| Covered bonds | 30 | | 397 | 687 | 50 | 1,164 |
| Medium Term Notes | | 60 | | | 60 | 120 |
| ABS/MBS | 25 | 157 | 234 | 674 | 269 | 1,359 |
| Corporate bonds | | | 233 | 167 | | 400 |
| Financial institution bonds | | | 60 | | | 60 |
| | **3,135** | **2,713** | **1,052** | **1,796** | **581** | **9,277** |
| **TOTAL** | **5,861** | **2,876** | **1,672** | **1,796** | **581** | **12,786** |

## LONG-TERM GIIPS COUNTRY EXPOSURES

BNG Bank has long-term exposures in the so-called ‘GIIPS countries’. 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 tables below provide information on the long-term exposures on the basis of outstanding principal amounts, broken down by country of origin and rating level. Unlike the overview of interest-bearing securities, the tables also include long-term private lending to the relevant countries.

| | | | | | 30-06-2014 |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **IRELAND** | | | | | |
| ABS/MBS | | | 254 | 6 | 260 |
| | – | – | 254 | 6 | 260 |
| **ITALY** | | | | | |
| Government bonds | | | 197 | | 197 |
| ABS/MBS | 42 | 60 | 11 | | 113 |
| IBS with government guarantee | | 22 | 19 | 88 | 129 |
| | 42 | 82 | 227 | 88 | 439 |

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| | 30-06-2014 | | | | |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **PORTUGAL** | | | | | |
| ABS/MBS | | 38 | 28 | | 66 |
| Loans and advances | | | | 123 | 123 |
| Covered bonds | | | 25 | | 25 |
| IBS with government guarantee | | | | 129 | 129 |
| | – | 38 | 53 | 252 | 343 |
| **SPAIN** | | | | | |
| Government bonds | | | 50 | | 50 |
| ABS/MBS | 97 | 88 | 360 | 191 | 736 |
| Loans and advances | | | 96 | 20 | 116 |
| Covered bonds | | 277 | 782 | 50 | 1,109 |
| IBS with government guarantee | 5 | 2 | | 46 | 53 |
| | 102 | 367 | 1,288 | 307 | 2,064 |
| **TOTAL** | 144 | 487 | 1,822 | 653 | 3,106 |

| | | | | | 31-12-2013 |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **IRELAND** | | | | | |
| ABS/MBS | | | 269 | 7 | 276 |
| | – | – | **269** | **7** | **276** |
| **ITALY** | | | | | |
| Government bonds | | | 197 | | 197 |
| ABS/MBS | 45 | 100 | 2 | 66 | 213 |
| IBS with government guarantee | | | 21 | 25 | 46 |
| | **45** | **100** | **220** | **91** | **456** |
| **PORTUGAL** | | | | | |
| ABS/MBS | | 39 | 29 | | 68 |
| Loans and advances | | | | 126 | 126 |
| Covered bonds | | | 25 | | 25 |
| IBS with government guarantee | | | | 131 | 131 |
| | – | **39** | **54** | **257** | **350** |

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| | 31-12-2013 | | | | |
|---|---|---|---|---|---|
| | AA | A | BBB | NON-INVEST-MENT GRADE | TOTAL |
| **SPAIN** | | | | | |
| Government bonds | | | 50 | | 50 |
| ABS/MBS | 103 | 95 | 374 | 197 | 769 |
| Loans and advances | | | 98 | 20 | 118 |
| Covered bonds | | 397 | 662 | 50 | 1,109 |
| IBS with government guarantee | 8 | 3 | | 46 | 57 |
| Medium Term Notes | | | | 60 | 60 |
| | **111** | **495** | **1,184** | **373** | **2,163** |
| **TOTAL** | **156** | **634** | **1,727** | **728** | **3,245** |

In the first half of 2014 the remaining principal amounts of long-term GIIPS country exposures declined by EUR 139 million as a result of regular redemptions. The total market value of the remaining exposures in the GIIPS countries rose on balance by EUR 149 million to EUR 3,177 million. Taking into account the redemptions, this means a market value increase of EUR 288 million, which is mainly due to the on balance lower credit and liquidity risk spreads for debtors in southern European countries.

The Irish exposure consists of the securitization of claims in Spain and Portugal. All exposures reported under the items Loans and advances and IBS with government guarantee were issued to regional governments or public organizations.

## RESULT ON FINANCIAL TRANSACTIONS

The result on financial transactions amounted to EUR 7 million negative in the first half of 2014. Contrary to the overall picture, this result was negatively affected in particular by the increased liquidity risk spreads of a limited number of interest-bearing securities and loans in the balance sheet item Financial assets at fair value through the income statement. The sharp fall in long-term interest rates in the first half of 2014 made a positive contribution to the unrealized market value adjustments on transactions involved in a hedge accounting relationship.

| | FIRST HALF OF 2014 | FIRST HALF OF 2013 |
|---|---|---|
| **MARKET VALUE ADJUSTMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:** | | |
| – Interest-bearing securities | −19 | 8 |
| – Derivative transactions with customers | −6 | 2 |
| – Structured loans | 7 | 11 |
| | **−18** | **21** |
| **RESULT FROM HEDGE ACCOUNTING:** | | |
| – Financial assets involved in a fair value hedge accounting relationship | 4,466 | −2,868 |
| – Financial liabilities involved in a micro fair value hedge accounting relationship | −2,106 | 3,177 |
| – Derivatives involved in hedge accounting | −2,337 | −350 |
| | **23** | **−41** |
| **RESULT FROM THE CHANGE-OVER TO OIS VALUATION OF DERIVATIVES WITH DAILY EXCHANGE OF COLLATERAL** | – | −27 |
| **RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE** | 2 | 1 |
| **OTHER MARKET VALUE ADJUSTMENTS** | −14 | −3 |
| **TOTAL** | **−7** | **−49** |

## 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 prevailing market conditions.
The guiding principle is that the valuation must be viewed from the perspective of market parties, whereby only the specific characteristics and limitations of the financial instrument are taken into consideration. In determining the fair value of financial instruments measured at fair value in the balance sheet, quoted market prices are used, insofar as these financial instruments are traded in an active market (Level 1). Financial instruments that are not traded in an active market are measured on the basis of quoted prices of comparable instruments where possible (Level 2). If quoted prices for comparable 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). The input for these models is based on objectively observable market prices (Level 2), or is largely based on unobservable inputs (Level 3).

In many cases, the bank is reliant on theoretical valuations in respect of its debtors. 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 spreads 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. With regard to interest rate swaps whereby the bank does not have an agreement with the counterparty for the daily exchange of collateral, a Credit Valuation Adjustment (CVA) for the counterparty's credit risk is applied in the calculation of the market value. The bank has set the adjustments to its own credit risk (the Debit Valuation Adjustment (DVA) for liability derivatives and its Own Credit Adjustment (OCA) for instruments recognized under Financial liabilities at fair value through the income statement) at zero on the basis of its creditworthiness.

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.

| BALANCE SHEET VALUE VERSUS FAIR VALUE | 30-06-2014 | | 31-12-2013 | |
|---|---|---|---|---|
| | BALANCE SHEET VALUE | FAIR VALUE | BALANCE SHEET VALUE | FAIR VALUE |
| Cash and balances with the central banks | 1,375 | 1,375 | 1,467 | 1,467 |
| Amounts due from banks and Loans and advances | 101,713 | 114,532 | 100,583 | 109,946 |
| Financial assets at fair value through the income statement | 3,938 | 3,938 | 3,530 | 3,530 |
| Financial assets available-for-sale | 11,750 | 11,750 | 9,607 | 9,607 |
| Other financial assets * | 21,304 | 9,683 | 15,874 | 8,273 |
| TOTAL FINANCIAL ASSETS | 140,080 | 141,278 | 131,061 | 132,823 |
| Amount due to banks and Funds entrusted | 14,783 | 15,861 | 13,972 | 14,151 |
| Subordinated debts | 32 | 48 | 32 | 46 |
| Debt securities | 98,545 | 99,593 | 94,828 | 95,717 |
| Financial liabilities at fair value through the income statement | 3,715 | 3,715 | 3,553 | 3,553 |
| Other financial liabilities | 19,136 | 19,136 | 15,086 | 15,086 |
| TOTAL FINANCAL LIABILITIES | 136,211 | 138,353 | 127,471 | 128,553 |

* The balance sheet value of the Other financial assets item includes a market value adjustment of EUR 11,621 million positive (31-12-2013: EUR 7,601 million positive) by virtue of portfolio fair value hedging, which relates almost entirely to 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 CATEGORY | 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 |
|---|---|---|---|---|---|---|---|
| | | | | | | | 30-06-2014 |
| – Cash and cash balances with the central banks | | | | | | 1,375 | 1,375 |
| – Amount due from banks | | | | | 359 | 10,614 | 10,973 |
| – Financial assets at fair value through the income statement | 2,478 | 1,460 | | | | | 3,938 |
| – Other financial assets | | | 9,683 | | 11,621 | | 21,304 |
| – Financial assets available-for-sale | | | | 680 | 11,070 | | 11,750 |
| – Loans and advances | | | | | 73,220 | 17,520 | 90,740 |
| **TOTAL ASSETS** | **2,478** | **1,460** | **9,683** | **680** | **96,270** | **29,509** | **140,080** |

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| FINANCIAL INSTRUMENTS BY CATEGORY | 30-06-2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | | | | | | 3,565 | 3,565 |
| – Financial liabilities at fair value through the income statement | 1,994 | 1,721 | | | | | 3,715 |
| – Other financial liabilities | | | 19,136 | | | | 19,136 |
| – Debt securities | | | | | 78,514 | 20,031 | 98,545 |
| – Funds entrusted | | | | | 6,011 | 5,207 | 11,218 |
| – Subordinated debts | | | | | | 32 | 32 |
| TOTAL LIABILITIES | 1,994 | 1,721 | 19,136 | – | 84,525 | 28,835 | 136,211 |

| FINANCIAL INSTRUMENTS BY CATEGORY | 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 |
|---|---|---|---|---|---|---|---|
| | | | | | | | 31-12-2013 |
| – Cash and cash balances with the central banks | | | | | | 1,467 | 1,467 |
| – Amount due from banks | | | | | 363 | 8,146 | 8,509 |
| – Financial assets at fair value through the income statement | 2,457 | 1,073 | | | | | 3,530 |
| – Other financial assets | | | 8,273 | | 7,603 | | 15,874 |
| – Financial assets available-for-sale | | | | 372 | 9,235 | | 9,607 |
| – Loans and advances | | | | | 73,393 | 18,681 | 92,074 |
| **TOTAL ASSETS** | **2,457** | **1,073** | **8,273** | **372** | **90,592** | **28,294** | **131,061** |

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| FINANCIAL INSTRUMENTS BY CATEGORY | | | | | | | 31-12-2013 |
|---|---|---|---|---|---|---|---|
| | 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 | | | | | | 3,939 | 3,939 |
| – Financial liabilities at fair value through the income statement | 1,952 | 1,601 | | | | | 3,553 |
| – Other financial liabilities | | | 15,086 | | | | 15,086 |
| – Debt securities | | | | | 74,252 | 20,576 | 94,828 |
| – Funds entrusted | | | | | 5,345 | 4,688 | 10,033 |
| – Subordinated debts | | | | | | 32 | 32 |
| **TOTAL LIABILITIES** | **1,952** | **1,601** | **15,086** | **–** | **79,597** | **29,235** | **127,471** |

## 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 BNG Bank has embedded in its valuation process.

- **LEVEL 1:** Valuation based on (unadjusted) quoted market prices, possibly 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 at 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 or 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 using unobservable inputs. This category includes instruments with a valuation technique that uses input variables that are not based on observable market data and whereby the unobservable inputs significantly influence the value of the instrument. This category also includes the instruments valued in accordance with the quoted prices for comparable instruments whereby significant unobservable changes or presumptions are necessary for expressing the differences between the instruments.

The appropriate category is determined on the completion of a transaction based on the relevant valuation characteristics. This categorization is evaluated at least once a year for each transaction during the periodic valuation process and changes are made where necessary.

| OVERVIEW OF FAIR VALUE LEVELS | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL 30-06-2014 |
|---|---|---|---|---|
| Financial assets at fair value through the income statement | | 2,893 | 1,045 | 3,938 |
| Other financial assets * | | 9,683 | | 9,683 |
| Financial assets available-for-sale | 6,440 | 5,097 | 213 | 11,750 |
| **TOTAL ASSETS** | **6,440** | **17,673** | **1,258** | **25,371** |
| Financial liabilities at fair value through the income statement | | 3,405 | 310 | 3,715 |
| Other financial liabilities | | 19,136 | | 19,136 |
| **TOTAL LIABILITIES** | **–** | **22,541** | **310** | **22,851** |

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL 31-12-2013 |
|---|---|---|---|---|
| Financial assets at fair value through the income statement | | 2,475 | 1,055 | 3,530 |
| Other financial assets * | | 8,273 | | 8,273 |
| Financial assets available-for-sale | 5,289 | 4,097 | 221 | 9,607 |
| **TOTAL ASSETS** | **5,289** | **14,845** | **1,276** | **21,410** |
| Financial liabilities at fair value through the income statement | | 3,301 | 252 | 3,553 |
| Other financial liabilities | | 15,086 | | 15,086 |
| **TOTAL LIABILITIES** | **–** | **18,387** | **252** | **18,639** |

* Excluding market value adjustments for hedge accounting amounting to EUR 11,621 million positive (31-12-2013: EUR 7,601 million positive).

## SIGNIFICANT MOVEMENTS IN FAIR VALUE LEVELS

New investments in West European government bonds for the purpose of expanding the liquidity portfolio account for the increase of over EUR 1.1 billion in Financial assets available-for-sale in Level 1. The increase in Other financial assets in Level 2 should be viewed in combination with the increase in Other financial liabilities in Level 2. This movement is attributable to the fair value adjustments of derivatives involved in a hedge accounting relationship due to the fall in long-term interest rates during the reporting period.

## TRANSFERS OF LEVELS 1 AND 2 ASSETS AND LIABILITIES

During the first half of 2014, no assets or liabilities were transferred from Level 1 to Level 2 or vice versa. The same applies to the full year 2013.

| STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES | FIRST HALF OF 2014<br>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 | 1,055 | 221 | −252 |
| Results through the income statement: | | | |
| – Interest result | 7 | 1 | −3 |
| – Unrealized result on financial transactions | 6 | – | −58 |
| – Realized result on financial transactions | 0 | 0 | – |
| | 13 | 1 | −61 |
| Unrealized value adjustments through the revaluation reserve | | 10 | |
| Investments | – | 0 | – |
| Interest and redemption cash flows | −23 | −19 | 3 |
| Derivatives shifted from assets to liabilities and vice versa | – | – | – |
| CLOSING BALANCE | 1,045 | 213 | −310 |

| STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES | | | 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 through the income statement: | | | |
| – Interest result | 14 | 3 | −6 |
| – Unrealized result on financial transactions | −13 | – | 1 |
| – Realized result on financial transactions | 0 | 0 | 0 |
| | 1 | 3 | −5 |
| Unrealized value adjustments through the revaluation reserve | | 3 | |
| Investments | – | 3 | – |
| Interest and redemption cash flows | −63 | −424 | 7 |
| Participating interest reclassified to ‘Financial assets available-for-sale’ | | 4 | |
| Derivatives shifted from assets to liabilities and vice versa | −6 | – | 6 |
| **CLOSING BALANCE** | **1,055** | **221** | **−252** |

In the first half of 2014 BNG Bank invested EUR 32 thousand in Level 3 items. This concerns investments in equity instruments which relate to two existing associates and are recorded under 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 2014 or throughout 2013. The Level 3 items are mainly interest-bearing securities that are rarely traded in the market. Because there is no 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 relating to unobservable inputs.

## NON-OBSERVABLE INPUT VARIABLES

In determining the fair value of Level 3 assets and liabilities BNG Bank applies the significant unobservable inputs stated below.

### FINANCIAL ASSETS AT FAIR VALUE

- In order to determine the spreads of inflation-linked interest-bearing securities and loans, the following unobservable inputs are used:
  - recovery rates for the relevant debtors (0.4) and monoline insurers (0.3);
  - a correlation factor between the debtor and the monoline insurer (0.2).
- Due to the absence of observable market data, specific liquidity spreads were applied in determining the individual spread curves for a RMBS transaction with a NHG guarantee and for Portuguese debtors.

### FINANCIAL ASSETS AVAILABLE-FOR-SALE

- The spreads for two private loans are based on the internal pricing model.
- Due to the absence of observable market data, specific liquidity spreads were applied in determining the individual spread curves for a Portuguese transaction and for four ABS transactions.
- In determining the market value of an infrastructure investment fund, the price was established on the basis of the fund's net asset value (110%).

## SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 ASSETS TO MOVEMENTS IN SIGNIFICANT INPUT FACTORS

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. This sensitivity analysis takes account of significant unobservable inputs comprising liquidity, credit and inflation spreads. These input factors are not interdependent. Nearly EUR 500 million of the Financial assets at fair value through the income statement consists of transactions for which a monoline insurance was taken out. If the value of the monoline insurances is set at zero, this has an unrealized negative effect on the result on financial transactions of EUR 57 million.

| | 30-06-2014 | | | | |
|---|---|---|---|---|---|
| | | IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN SIGNIFICANT INPUT FACTORS OF | | | |
| | FAIR VALUE | +10 BP | -10 BP | +100 BP | -100 BP |
| Financial assets at fair value through the income statement | 1.045 | −11 | 11 | −113 | 112 |
| Financial assets available-for-sale | 209 | 0 | 0 | −1 | 1 |
| Financial liabilities at fair value through the income statement | −310 | 16 | −16 | 162 | −162 |
| TOTAL | 944 | 5 | −5 | 48 | −49 |

| | | | | | 31-12-2013 |
|---|---|---|---|---|---|
| | | IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN SIGNIFICANT INPUT FACTORS OF | | | |
| | FAIR VALUE | +10 BP | -10 BP | +100 BP | -100 BP |
| Financial assets at fair value through the income statement | 1,055 | −17 | 17 | −174 | 174 |
| Financial assets available-for-sale | 221 | 0 | 0 | −1 | 1 |
| Financial liabilities at fair value through the income statement | −252 | 17 | −17 | 173 | −173 |
| **TOTAL** | **1,024** | **0** | **0** | **−2** | **2** |

BNG Bank hedges nearly all its interest rate risks through swaps. The fair value adjustments to interest-bearing securities arising from a change in the interest curve alone therefore have a limited impact on the bank's result and equity. During the reporting period the sensitivity to interest rate fluctuations and value adjustments to interest-bearing securities and loans with an inflationary component began to diverge from the relevant swaps concluded to hedge the currency, interest rate and inflation risks. Partly as a result of using the OIS valuation method for swaps (whereby collateral obligations are exchanged on a daily basis), the sensitivity level is no longer perfectly reversed. These effects will be extinguished during the maturity of the assets and the associated swaps. Interest rate fluctuations arising from a change in credit and liquidity risk spreads have consequences for result and equity.
An integral change in the credit risk spreads by +50 basis points in the interest-bearing securities with Level 3 stated as assets in the balance sheet will cause the bank's result to fall by EUR 56 million (31-12-2013: EUR 87 million).

| | 30-06-2014 | 31-12-2013 |
|---|---|---|
| **OFF-BALANCE SHEET COMMITMENTS** | | |
| Contingent liabilities | 193 | 188 |
| Irrevocable facilities | 5,982 | 5,925 |

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. 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. Irrevocable facilities involve irrevocable commitments which can lead to the granting of loans and advances. BNG Bank also states these obligations at the underlying, not yet granted, principal amount.

## 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, 22 August 2014

### EXECUTIVE BOARD

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

### SUPERVISORY BOARD

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**C.J. BEUVING**
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**J.J. NOOITGEDAGT**
**MRS. M. SINT**

# 4 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, 2014, 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 period from January 1, 2014 to June 30, 2014 with disclosures, which include a view on the critical accounting principles and other disclosures. 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 period from January 1, 2014 to June 30, 2014 is not prepared, in all material aspects, in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union. ■

Amsterdam, August 22, 2014

**ERNST & YOUNG ACCOUNTANTS LLP**

**SIGNED BY W.J. SMIT**

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