Interim Report

BNG Bank 2017

BANK

Contents

Profile

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

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

BNG Bank's clients primarily comprise local authorities and public sector institutions in the area of housing, healthcare, education and public utilities. BNG Bank provides customised financial services, such as lending, payment services and area development. BNG Bank also participates in public-private partnerships. By far the greatest part of the bank's lending is free of credit risk, because these loans are granted to or guaranteed by public authorities.

BNG Bank makes a **long-term** contribution to **minimising** the costs of **social** provisions for the public.

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

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

Report of the Executive Board

In the first half of 2017, BNG Bank posted a net profit of EUR 242 million, up EUR 116 million on the first half of 2016. This sharp increase is the consequence of an interest result that was higher than expected and a very positive result on financial transactions. The bank's interest result benefited from attractive rates for short-term funding. The result on financial transactions benefited from both realised and unrealised market value changes, mainly due to the European Central Bank's bond-buying programme and the increase in long-term interest rates during the reporting period.

At EUR 4.4 billion, new long-term lending in the first half of 2017 declined EUR 0.3 billion compared to the same period in 2016. The main reason for this is the relatively low market demand. The bank's substantial market share was down slightly on previous years. Owing to the relatively high return compared with government loans, loans to local authorities in particular, although less liquid, have become more interesting to institutional investors. The return on government loans is being kept very low in the current market because of the ECB's interventions within the context of the monetary policy. The bank is also facing growing competition from initiatives launched by the European Investment Bank and the European Fund for Strategic Investments. Those initiatives do not always seem to relate to tackling market failure. The long-term loan portfolio has fallen to EUR 79.8 billion, down EUR 1.2 billion compared to the end of 2016.

In connection with the recent tightening up of the strategy, with a view to operating even closer to the client and the shareholder and increasing the organisation's flexibility and sustainability, BNG Bank has developed initiatives in which the optimum use of government guarantees and the bank's competitive funding rates are combined. This includes the conclusion of the first refinancing transaction of a guaranteed export credit in the amount of USD 200 million. The bank intends to conclude further similar refinancing agreements within the framework of the export credit guarantee scheme. In doing so, the bank will be supporting government policy aimed at making funding more attractive to foreign buyers of Dutch goods and services. A EUR 25 million transaction was also completed in the reporting period to expand financing initiatives for the SME sector. The bank is currently also reviewing numerous initiatives in the field of sustainable social issues, often in tandem with external parties. These initiatives focus not just on the existing traditional customer groups within the (semi)public sector, but also on private parties increasingly seeking to operate in the public domain. One of these initiatives is the Energy Transition Financing Facility, worth EUR 100 million. The bank is collaborating in this with the Ministry of Economic Affairs and the Netherlands Investment Agency, encouraging sustainable investments by providing subordinated loans.

In the reporting period, BNG Bank raised EUR 9.9 billion (first half of 2016: EUR 12.6 billion) in long-term funding, by issuing five benchmark loans (in euros and US dollars) ranging in size from 650 million to 2.25 billion, among other things. The favourable market conditions led to attractive conditions. The reporting period provided for approximately 70% of the anticipated long-term funding requirement in 2017. The bank benefited from attractive lending rates while raising short-term funding in US dollars.

The bank's interest result increased by EUR 31 million to EUR 222 million compared with the same period in 2016. The margin of the short-term business rose sharply as a result of the favourable market conditions referred to above. The margin of the long-term credit business rose cautiously, mainly as a result of the attractive lending rates of long-term funding that was recently raised. The low interest rate in an absolute sense and the restrained interest rate position, given the expectations of a rising interest rate later in the year, continue to put pressure on the interest result.

The result on financial transactions was EUR 132 million positive in the reporting period (first half of 2016: EUR 28 million negative). The unrealised changes in market value strongly contributed to this positive result. They are largely the result of the fall in the credit and liquidity risk spreads in the long-term interest-bearing securities portfolio. In addition, the Credit Valuation Adjustments, a measure of the extent of credit risk in derivatives, was positively

The long-term **loan portfolio** has fallen to **EUR 79.8 billion**, down EUR 1.2 billion compared to the end of 2016.

affected by the rise in long-term interest rates. Positive results totalling EUR 31 million were achieved on the sale of interest-bearing securities from the bank's liquidity portfolio.

The bank's commission result decreased by EUR 4 million to EUR 11 million compared with the same period in 2016. The commission income was under pressure by the decline of newly granted loans.

The standard operating expenses amounted to EUR 34 million in the first half of 2017. The EUR 3 million increase compared with the same period in 2016 is mainly due to the necessary costs incurred by the bank in order to deal with the rapidly changing laws and regulations and the accompanying extensive reporting requirements. The expenses for external supervision, information technology and personnel grew in particular.

In June, BNG Bank paid its contribution of over EUR 9 million to the European Resolution Fund. This contribution was lower than last year as a result of an adjustment of the way in which promotional loans are included in the calculation.

Impairments totalling EUR 3 million were recognised in the income statement in the first half of 2017. This mainly concerns a partial write-down of a loan without a government guarantee to a care provider.

Relative to year-end 2016, the balance sheet total declined by EUR 7.7 billion to EUR 146.3 billion. The Loans and advances item decreased by over EUR 1.7 billion to EUR 85.8 billion in the reporting period. In addition, the rise of the long-term interest rate resulted in a decrease in the following balance sheet items measured at fair value: Derivatives (both on the asset and the liability side) and Value adjustments on loans involved in portfolio hedge accounting. The Debt securities item declined mainly due to the US dollar falling in value against the euro.

In the reporting period, the bank's equity grew by EUR 0.3 billion to almost EUR 4.8 billion. In addition to the net profit for the first half of the year, the increase in the cash flow hedge reserve is the main reason for this increase.

BNG Bank's risk-weighted solvency ratio increased during the reporting period. The Common Equity Tier 1 ratio and the bank's Tier 1 ratio rose to 30% and 36%, respectively. This rise is mainly the result of the addition of the retained profit for 2016 to the other reserves and the fact that, in 2017, 80% of the revaluation reserve is included in the Tier 1 capital, while this was just 60% in 2016. Due to the increase in Tier 1 capital and the lower balance sheet total, the bank's leverage ratio increased by 0.3% to 3.3% compared with the end of 2016. If the revaluation reserve and the profit for the reporting period, less the dividend available for distribution, were included in full, the leverage ratio at mid-year 2017 would be 3.5%, slightly above the bank's target.

A **refinancing agreement** for a guaranteed export credit of **USD 200 million** was signed.

With effect from 1 January 2018, BNG Bank will be required to report on its balance sheet and income statement in accordance with the new standard for financial instruments (IFRS 9). The bank has almost completed the introduction of this standard and will use the second half of 2017 to monitor the differences compared to the current standard (IAS 39) on a daily basis. Based on the bank's current understanding, the transition to the new standard will result in a decrease of equity within a range of EUR 200 million to EUR 300 million. This decrease is mainly attributable to adjustments relating to hedge accounting, with a large part expected to relate to a decrease in the cash flow hedge reserve. As this reserve is not part of the Tier 1 capital, the impact on the Tier 1 ratio and the leverage ratio is expected to be relatively limited. The anticipated limited decrease of the other reserves is largely the result of an increase in the debt provision. The consequences of IFRS 9 for the bank will be dealt with in further detail in the notes to the consolidated interim financial statements.

As a result of the relatively low demand and increased competition, partly as a result of the current monetary policy, BNG Bank expects the amount of the loans issued in 2017 to be smaller than in 2016. In light of the continuing improvement of the economic outlook, an increase in demand is in fact expected. Housing associations will be stepping up investments in new social housing in the years ahead. However, the bank expects that housing associations will initially employ their own freed up resources. A positive boost for the bank's new lending will be delayed as a result.

Despite the high creditworthiness of the bank's exposures and the much improved economic climate, it cannot be ruled out that a few debtors may no longer be able to meet their payment obligations. In the area development and healthcare sectors in particular, the bank's clients are still suffering the consequences of the crisis or of amended regulations and market conditions. Therefore, an addition to the debt provision or an impairment may also be required in the further course of 2017.

The anticipated long-term funding requirement in 2017 is over EUR 14 billion. The bank will continue to focus its policy on achieving diversification in terms of product, currency and maturity. Expectations are that two new Socially Responsible Investment bonds will be issued in the second half of 2017. With these issues, BNG Bank is responding to the growing demand for this kind of investments and encouraging greater sustainability efforts by local authorities and housing associations.

In the coming years, the bank's cost level will continue to rise, largely as a result of the numerous new regulations that are required to be implemented in its systems and processes. Consolidated operating expenses are expected to amount to approximately EUR 71 million in 2017. The statutory bank levy, which is paid and accounted for in the fourth quarter, is EUR 36 million.

The interest result for 2017 is expected to be within a range of EUR 420 million and EUR 450 million. Owing to the volatility on the financial markets, it is not possible to give a reliable indication of the unrealised result within the result on financial transactions. It is mainly because of this that the bank does not consider it wise to make a statement regarding the expected net profit for 2017.

DECLARATION OF RESPONSIBILITY

In the opinion of the Executive Board, the 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, 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 does not contain all the information required for full financial statements and should therefore be read in combination with the 2016 Annual Report.

The Hague, 25 August 2017

Executive Board,

C. VAN EYKELENBURG
CHAIR

O.J. LABE

J.C. REICHARDT

> The Energy Transition Financing Facility (**ETFF**), worth **EUR 100 million**, encourages **sustainable** investments.

Consolidated interim financial statements

As regards all the financial statements and the selected notes in this Interim Report, an unqualified audit opinion has been issued for the figures as at 31 December 2016 and for the 2016 financial year as a whole. An unqualified review report has been issued for the figures as at 30 June 2017, as well as for the first half of 2017 and 2016 respectively.

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/6/2017	31/12/2016
ASSETS		
Cash and balances held with central banks	6,681	6,417
Amounts due from banks	13,415	11,795
Financial assets at fair value through the income statement	2,169	2,350
Derivatives	11,013	15,412
Financial assets available-for-sale	14,886	15,437
Loans and advances	85,879	87,576
Value adjustments on loans involved in portfolio hedge accounting	12,173	14,894
Investments in associates and joint ventures	45	46
Property and equipment	17	17
Current tax asset	14	–
Other assets	48	56
TOTAL ASSETS	**146,340**	**154,000**
LIABILITIES		
Amounts due to banks	3,077	3,530
Financial liabilities at fair value through the income statement	1,132	1,190
Derivatives	22,277	24,780
Current tax liability	-	31
Deferred tax liability	160	116
Debt securities [1]	108,133	112,180
Funds entrusted	6,699	7,557
Subordinated debts	31	31
Other liabilities	66	99
TOTAL LIABILITIES	**141,575**	**149,514**
Capital	139	139
Share premium reserve	6	6
Revaluation reserve	290	275
Cash flow hedge reserve	134	3
Other reserves	3,221	2,961
Unappropriated profit	242	369
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	**4,032**	**3,753**
Hybrid capital	733	733
TOTAL EQUITY	**4,765**	**4,486**
TOTAL LIABILITIES AND EQUITY	**146,340**	**154,000**

The number refers to the selected notes to the consolidated 2017 Interim Report.

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2017		FIRST HALF OF 2016	
– Interest income	2,973		3,070	
– Interest expenses	2,751		2,879	
Interest result		222		191
– Commission income	12		17	
– Commission expenses	1		2	
Commission result		11		15
Result on financial transactions [2]		132		–28
Results from associates and joint ventures		2		2
Result from sales of assets held-for-sale		–		34
Other results		1		1
TOTAL INCOME		**368**		**215**
Staff costs		20		18
Other administrative expenses		13		12
Depreciation		1		1
TOTAL OPERATING EXPENSES		**34**		**31**
Impairments [3]		3		2
Contribution to resolution fund		9		16
TOTAL OTHER EXPENSES		**12**		**18**
PROFIT BEFORE TAX		**322**		**166**
Taxes		–80		–40
NET PROFIT		**242**		**126**
– of which attributable to the holders of hybrid capital		18		4
– of which attributable to shareholders		224		122

The numbers refer to the selected notes to the consolidated 2017 Interim Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

All figures in the statement below are after taxation.

	FIRST HALF OF 2017			FIRST HALF OF 2016		
NET PROFIT			**242**			**126**
Recyclable results recognised directly in equity:						
– Changes in cash flow hedge reserve:						
– Unrealised value changes	131			−321		
– Realised value changes transferred to the income statement	0			0		
		131			−321	
– Changes in the revaluation reserve for financial assets available-for-sale:						
– Unrealised value changes	53			58		
– Realised value changes transferred to the income statement	−31			−60		
– Impairments through the income statement	0			0		
		22			−2	
TOTAL RECYCLABLE RESULTS		**153**			**−323**	
Non-recyclable results recognised directly in equity:						
– Movement in the Own Credit Adjustment (OCA) revaluation reserve for financial liabilities at fair value through the income statement:						
– OCA as at 1 January 2016	–			30		
– Unrealised value changes in OCA	−7			−1		
		−7			29	
– Movement in actuarial results		–			0	
TOTAL NON-RECYCLABLE RESULTS		**−7**			**29**	
RESULTS RECOGNISED DIRECTLY IN EQUITY			**146**			**−294**
TOTAL			**388**			**−168**
– of which attributable to the holders of hybrid capital			18			4
– of which attributable to shareholders			370			−172

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2017	FIRST HALF OF 2016
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	322	166
Adjusted for:		
– Depreciation	1	1
– Impairments	3	2
– Unrealised results through the income statement	–100	80
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	–2,054	–5,431
– Changes in Loans and advances	1,522	316
– Changes in Funds entrusted	–669	–182
– Changes in Derivatives	392	281
– Corporate income tax paid	–126	–83
– Other changes from operating activities	–125	–160
NET CASH FLOW FROM OPERATING ACTIVITIES	**–834**	**–5,010**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–2,713	–748
– Investments in associates and joint ventures	–2	–
– Property and equipment	–1	–1
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	119	20
– Financial assets available-for-sale	3,203	697
– Investments in associates and joint ventures	–	1
– Assets held for sale	–	77
NET CASH FLOW FROM INVESTING ACTIVITIES	**606**	**46**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2017	FIRST HALF OF 2016
CASH FLOW FROM FINANCING ACTIVITIES		
Amounts received on account of:		
– Debt securities	83,869	75,859
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	−17	−516
– Debt securities	−83,246	−69,204
– Subordinated debts	−1	–
– Dividend distribution on hybrid capital	−23	−8
– Dividend distribution to shareholders	−91	−57
NET CASH FLOW FROM FINANCING ACTIVITIES	**491**	**6,074**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**263**	**1,110**
Cash and cash equivalents as at 1 January	6,421	3,176
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	**6,684**	**4,286**
Cash and cash equivalents as at 30 June:		
– Cash and balances held with central banks	6,680	4,290
– Cash equivalents in the Amounts due from banks item	4	1
– Cash equivalents in the Amounts due to banks item	0	−5
	6,684	**4,286**
NOTES TO CASH FLOW FROM OPERATING ACTIVITIES		
Interest income received	2,902	2,471
Interest expenses paid	−2,756	−2,334
	146	**137**

BNG Bank has not recognised any results from minority interests in the consolidated equity which is attributable to third parties. With the exception of the hybrid capital, the entire equity is attributable to the shareholders. The dividend distribution on the hybrid capital, which was made for the first time in 2016, was paid to the investors concerned after deduction of taxes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

									FIRST HALF OF 2017
	CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 01/01/2017	**139**	**6**	**275**	**3**	**2,961**	**369**	**3,753**	**733**	**4,486**
Net profit						242	242		242
Movement in OCA			–7				–7		–7
Unrealised results			22	131			153		153
Dividend distribution to the bank's shareholders					–91		–91		–91
Dividend distribution to holders of hybrid capital					–18		–18		–18
Appropriation from previous year's profit					369	–369	–		–
BALANCE AS AT 30/06/2017	**139**	**6**	**290**	**134**	**3,221**	**242**	**4,032**	**733**	**4,765**
									FIRST HALF OF 2016
BALANCE AS AT 01/01/2016	**139**	**6**	**320**	**251**	**2,797**	**226**	**3,739**	**424**	**4,163**
Net profit						126	126		126
Own Credit Adjustment (OCA) as at 1 January 2016			30				30		30
Movement in OCA			–1				–1		–1
Unrealised results			–2	–321	2		–321		–321
Dividend distribution to the bank's shareholders					–57		–57		–57
Dividend distribution to holders of hybrid capital					–6		–6		–6
Appropriation from previous year's profit					226	–226	–		–
BALANCE AS AT 30-6-2016	**139**	**6**	**347**	**–70**	**2,962**	**126**	**3,510**	**424**	**3,934**

Selected notes to the consolidated Interim Report

GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared by and issued for publication by the Executive Board on 25 August 2017. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2 in The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

MAIN ACCOUNTING PRINCIPLES USED FOR THE REPORTING

The consolidated Interim Report is 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 2016 Annual Report. In preparing this consolidated Interim Report, the same system was applied to significant estimates and methods as that for the 2016 consolidated Financial Statements.

The consolidated Interim Report was prepared on the basis of the going-concern principle. Most balance sheet items are measured at amortised cost. The balance sheet items Financial assets at fair value through the income statement, Financial assets available-for-sale, Derivatives and Financial liabilities at fair value through the income statement are measured at fair value. The balance sheet item Investments in associates and joint ventures is stated according to the equity method. The balance sheet item Property and equipment is stated at cost less accumulated depreciation. The actuarial valuation is applied for the provision associated with the mortgage interest rate discount.

The Interim Report of the parent company and its subsidiaries, which is used to prepare the consolidated Interim Report, is drawn up on the same reporting date and based on the same uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated Interim Report. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. All amounts stated in the 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 recognised if it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses.

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

DISCLOSURE OF COMPARATIVE FIGURES

The comparative figures in this consolidated Interim Report do not differ from the figures disclosed in the 2016 Financial Statements. Apart from the points set out below, the comparative figures in this consolidated Interim Report do not differ from the figures disclosed in the 2016 consolidated Interim Report.

At the end of 2016, BNG Bank decided in favour of the early adoption of one part of IFRS 9 in the 2016 Financial Statements. This will also affect the comparative figures in the 2017 Interim Report. This concerns the disclosure of value movements in financial assets at fair value through the income statement as a result of changes in the Bank's own credit risk ('Own Credit Adjustment'/OCA) in accordance with Section 7.1.2 of IFRS 9. Due to the early adoption, movements in the OCA (net of taxes) are not recognised through the income statement but through the unrealised portion of the equity (in this case, the revaluation reserve). In the event of the early redemption of financial liabilities at fair value through the income statement, the OCA for the transaction in question is transferred from the revaluation reserve to the realised portion of the equity (other reserves). BNG Bank has opted for early adoption. The IFRS 9 condition that early adoption eliminates an accounting mismatch is met because the own credit risk is not hedged.

From a prudential perspective, BNG Bank has consistently set the spread for its own credit risk at zero in the past, on the basis of its high ratings and excellent creditworthiness. The adoption of this part of IFRS 9 therefore has no impact on the opening balance sheet as at 1 January 2016, and its correction is immaterial for the presentation of the 2016 Financial Statements and the 2017 Interim Report (EUR 30 million positive in equity on 1 January 2016). The total value of the OCA as at 30 June 2016 is EUR 29 million positive (after tax) in equity. As a result, the equity was adjusted as at 30 June 2016 relative to the 2016 consolidated Interim Report from EUR 3,905 million positive to EUR 3,934 million positive.

Changes in disclosure have also been applied to the income statement relative to the 2016 consolidated Interim Report. Since the introduction of IFRS in 2005, BNG Bank has shown the revenue from the bank's assets and the associated hedging instruments (derivatives) under interest income. Expenses resulting from liabilities and the associated hedging instruments were shown under interest expenses. The consistent decline in interest rates (leading to negative interest in some cases) has prompted the bank to adjust this method. If the yield curves were to become entirely negative, the bank would eventually report a negative figure under interest income and a positive figure under interest expenses. BNG Bank takes the view that the change below will provide more relevant and reliable information as, under the new method, interest income and interest expenses are a more accurate disclosure of the bank's primary income and expenditure.

- In the 2016 consolidated Interim Report, both the interest income and interest expenses on assets and the associated derivatives totalling EUR 290 million for the first half of 2016 are recorded as an Interest Income item. In the 2017 consolidated Interim Report, the interest income from all assets and liabilities for the first half of 2016, totalling EUR 3,070 million, is recorded as an Interest Income item. This change in disclosure means an increase in the Interest Income item for the first half of 2016 of EUR 2,780 million.
- In the 2016 consolidated Interim Report, both the interest income and interest expenses on liabilities and the associated derivatives totalling EUR 99 million for the first half of 2016 are recorded as an Interest Expenses item. In the 2017 consolidated Interim Report, the interest expenses from all assets and liabilities for the first half of 2016, totalling EUR 2,879 million, are recorded as an Interest Expenses item. This change in disclosure means an increase in the Interest Expenses item for the first half of 2016 of EUR 2,780 million.

APPLICABLE LAWS AND REGULATIONS

The consolidated Interim Report was prepared in accordance with the IFRS, as issued by the International Accounting Standards Board (IASB) and adopted throughout the European Union, and with Part 9, Book 2 of the Dutch Civil Code. The consolidated interim figures of BNG Bank were prepared in accordance with the principles and calculation methods applied for the 2016 Financial Statements.

UNAPPLIED EU ACCOUNTING STANDARDS EFFECTIVE ON OR AFTER 1 JANUARY 2017

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has, in principle, also decided against the early application of the amended standards and interpretations adopted by the EU, whose application is mandatory for the financial years after 1 January 2017. Application of the following new or amended standards, interpretations and improvements might have led to significant adjustments in this 2017 consolidated Interim Report in respect of valuation, the determination of the result and the disclosures of the bank.

- Amendments to IAS 7 Cash Flow Statement Disclosure Initiative: these amendments take effect prospectively on 1 January 2017 and define the requirement of additional disclosures in respect of the statement of cash flows for liabilities arising from financing activities. Changes related to cash flows and also changes unrelated to cash flows, such as changes in fair value and the effect of changes in exchange rates, require a more detailed explanation. The EU is expected to grant approval in the fourth quarter of 2017. This standard will first have an impact on BNG Bank's notes in the 2017 Financial Statements.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses: these amendments take effect retrospectively on 1 January 2017 and concern deferred tax assets for unrealised losses for interest-bearing securities which are recognised at fair value. The EU is expected to grant approval in the fourth quarter of 2017. These amendments have no

consequences for BNG Bank because the bank already complies with the IFRS as regards tax.

- Annual Improvements to IFRSs 2014-2016 cycle: these improvements relate to standards IAS 28, IFRS 1 and IFRS 12. The changes based on IFRS 12, disclosure of interests in other entities held for sale, take effect retrospectively on 1 January 2017. The improvements resulting from IAS 28 and IFRS 1 take effect prospectively on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. The improvements have no implications for the equity, result and disclosures in BNG Bank's financial statements.
- Amendments to IAS 40 Transfers of Investment Property: these amendments take effect prospectively on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. These amendments do not apply to the bank, as BNG Bank has no investment property or property in inventory.
- Amendment to IFRS 2 Classification and Measurement Share based payment transactions: this amendment will take effect on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. This amendment does not apply to the bank, as BNG Bank has no share-based payment transactions.
- Amendment to IFRS 4 Insurance Contract, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: this standard will take effect on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. The standard does not apply to the bank, as BNG Bank does not issue insurance contracts.
- IFRS 9 Financial Instruments and Amendments to IFRS 9 and IFRS 7: IFRS 9 will replace IAS 39 Financial Instruments almost entirely, apart from the macro hedge accounting section. The EU adopted the new standard on 22 November 2016 and it will take effect on 1 January 2018, with different parts being implemented retrospectively and prospectively. As a result of the amendments, a number of new provisions and textual changes have been implemented in the disclosure requirements (IFRS 7). For further details, please refer to 'Explanation of the consequences of IFRS 9' below.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of assets between an investor and its associate or joint venture: these amendments state how a share in an associate or joint venture should be measured (in connection with fair value) if a subsidiary is deconsolidated. The effective date was 1 January 2016, but has been postponed indefinitely. These amendments apply prospectively to BNG Bank after the final effective date if the bank decides to sell part of its share in its subsidiaries.
- IFRS 14 Regulatory Deferral Accounts: this standard applies to First-Time Adopters and will take effect prospectively on 1 January 2016. The European Commission has postponed the processing of this standard pending the definitive version. This standard does not apply to BNG Bank.
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Effective date of IFRS 15: this standard replaces a number of standards and interpretations concerning revenue recognition and applies to client contracts which do not fall under the scope of IAS 17, IAS 39 or IFRS 9, IFRS 4, IFRS 10, IFRS 11, IAS 27 and IAS 28. The EU adopted IFRS 15 on 22 September 2016 and it will take effect on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. The bank is examining which types of commission received meet this new standard. The implications for BNG Bank's result, equity and the disclosures are expected to be limited.
- Clarification to IFRS 15 Revenue from Contracts with Customers: these clarifications to IFRS 15 will take effect on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. See also the previous item.
- IFRS 16 Leases: this standard replaces the IAS 17 'Leases' standard, IFRIC 4, SIC-15 and SIC-27 and takes effect prospectively on 1 January 2019. The EU is expected to grant approval in the fourth quarter of 2017. The standard introduces a new lease framework; both lessee and lessor are required to recognise all assets and liabilities under the lease contract. BNG Bank concludes several operational lease contracts every year for its own use. The effect of this standard on BNG Bank is very limited.
- IFRS 17 Insurance Contracts: this standard replaces IFRS 4 and enters into retrospective effect on 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. This standard does not apply to BNG Bank.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: this interpretation concerns the treatment of non-monetary assets and liabilities in foreign currency and may be applied retrospectively or prospectively as of 1 January 2018.

The EU is expected to grant approval in the fourth quarter of 2017. BNG Bank already complies with this interpretation.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments: IFRIC 23 is applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates in the case of uncertainty over income tax treatments under IAS 12. This interpretation should be applied retrospectively as at 1 January 2019, without adjustment of comparative figures. The EU is expected to grant approval in 2018. BNG Bank is examining the impact.

EXPLANATION OF THE CONSEQUENCES OF IFRS 9

IFRS 9 'Financial Instruments' will replace IAS 39 'Financial Instruments' almost entirely, apart from the macro hedge accounting section. The IFRS 9 standard can be divided into three parts: 'Classification and Measurement', 'Hedge Accounting' and 'Impairment'. IFRS 9 will have consequences for BNG Bank's equity, the classification of financial assets on the balance sheet, the result and the disclosures in the financial statements.

CLASSIFICATION AND MEASUREMENT

IFRS 9 will lead to changes in the classification and valuation of financial assets. The new standard introduces two tests, the 'Business model test' and the 'Contractual cash flow characteristics test' (also known as the SPPI test (Solely Payments of Principal and Interest test)), which will be used for the classification and recognition of financial assets. Instruments that satisfy both tests are, in principle, measured at amortised cost. Instruments that fail the SPPI test must be measured at fair value with value movements through the income statement. This also applies to financial assets that (due to an accounting mismatch) are classed as measured at fair value through the income statement. The valuation of derivatives (not embedded in financial instruments) remains unchanged at fair value through the income statement.

Under IFRS 9, investments in equity instruments will be measured at fair value with value movements through the income statement. BNG Bank is not expected to make use of the option under the standard to measure these investments at fair value with value movements through the equity because such use does not permit reclassification to the income statement of realised value movements.

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

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

HEDGE ACCOUNTING

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

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

IMPAIRMENTS

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

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

The new impairment rules lead to an increase in the degree of professional judgement as regards the determination of an adequate level for the expected credit loss. This applies to the determination of the probability of default, the loss given default and the exposure at default in the future. These calculations must also take into account forward-looking information of macroeconomic factors.

As the new impairment system has a larger scope and the calculations by definition lead to higher provisions, the bank anticipates a substantial impact on the size of the bank's expected credit loss provision. It should be noted that the current and expected level of provisions in future are low in absolute terms, given the high credit quality of the bank's debtors.

TRANSITION AND EARLY ADOPTION

BNG Bank has decided in favour of the early adoption of one part of IFRS 9 as of the 2016 Financial Statements. This concerns the presentation of value movements in financial assets at fair value through the income statement as a result of changes in the bank's own credit risk ('Own Credit Adjustment'/OCA). The impact of this early adoption has already been described under Disclosure of comparative figures.

SEGMENTED INFORMATION

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

DIVIDEND

The proposed dividend of EUR 91 million for the 2016 financial year was paid out to the shareholders following the General Meeting of Shareholders held in the first half of 2017. In addition, EUR 23 million in dividend was distributed to the holders of the hybrid capital. This distribution is deductible from corporate income tax. The net impact on equity is EUR 18 million negative. BNG Bank has no plans to pay out an interim dividend on the result for the first half of 2017.

1 DEBT SECURITIES

As part of its long-term funding activities, BNG Bank issued EUR 9.9 billion of long-term debt securities in the first half of 2017 (first half of 2016: EUR 12.6 billion). The total redemption value of long-term debt securities amounted to EUR 8.3 billion in the reporting period (first half of 2016: EUR 7.6 billion). The Debt securities item's decline by EUR 4.1 billion to EUR 108.1 billion can be explained mainly by the fall in value of the US dollar against the euro.

2 RESULT ON FINANCIAL TRANSACTIONS

The table below presents a breakdown of the result on financial transactions into realised and unrealised market value changes.

	FIRST HALF OF 2017		FIRST HALF OF 2016	
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS				
– Interest-bearing securities	42		–20	
– Structured loans	–3		–8	
		39		–28
RESULT FROM HEDGE ACCOUNTING				
– Portfolio fair value hedge accounting	20		–2	
– Micro fair value hedge accounting	–13		3	
– Micro cash flow hedge accounting	0		27	
		7		28
Change in counterparty credit risk of derivatives (CVA/DVA)		30		–39
Realised sales and buy-out results		32		51
Other market value changes		24		–40
TOTAL		**132**		**–28**

In the reporting period, the result on financial transactions was positively influenced by unrealised results, mainly arising from incoming credit and liquidity risk spreads of a number of interest-bearing securities recorded under Financial assets at fair value through the income statement, realised sales and buy-out results and the continued rise of the long-term interest rate, which is reflected in the decreased (negative) value of the counterparty credit risk in derivatives transactions (CVA/DVA), the results from hedge accounting and the other market value changes. This latter category includes, among others, the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in hedge accounting.

3 IMPAIRMENTS

	FIRST HALF OF 2017	FIRST HALF OF 2016
Addition to the incurred loss provision for loans and advances	3	1
Release from the incurred loss provision for loans and advances	0	–
Impairment of financial assets available-for-sale	–	–
Impairment of associates and joint ventures	0	2
Reversal of impairment of associates and joint ventures	–	–1
TOTAL	**3**	**2**

Impairments over the first half of 2017 amounted to EUR 3 million (first half of 2016: EUR 2 million). In the first half of 2017, the bank's loss provision was reduced fractionally. The addition to the provision in the first half of 2017 mainly concerns a partial write-down of a loan without a government guarantee to a care provider.

BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

					30/06/2017
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
Cash and balances held with central banks	6,681				6,681
Amounts due from banks	13,415				13,415
Financial assets at fair value through the income statement		2,169			2,169
Derivatives			11,013		11,013
Financial assets available-for-sale				14,886	14,886
Loans and advances	85,879				85,879
Value adjustments on loans involved in portfolio hedge accounting	12,173				12,173
TOTAL ASSETS	**118,148**	**2,169**	**11,013**	**14,886**	**146,216**
Amounts due to banks	3,077				3,077
Financial liabilities at fair value through the income statement		1,132			1,132
Derivatives			22,277		22,277
Debt securities	108,133				108,133
Funds entrusted	6,699				6,699
Subordinated debts	31				31
TOTAL LIABILITIES	**117,940**	**1,132**	**22,277**	**–**	**141,349**

					31/12/2016
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
Cash and balances held with central banks	6,417				6,417
Amounts due from banks	11,795				11,795
Financial assets at fair value through the income statement		2,350			2,350
Derivatives			15,412		15,412
Financial assets available-for-sale				15,437	15,437
Loans and advances	87,576				87,576
Value adjustments on loans involved in portfolio hedge accounting	14,894				14,894
TOTAL ASSETS	**120,682**	**2,350**	**15,412**	**15,437**	**153,881**
Amounts due to banks	3,530				3,530
Financial liabilities at fair value through the income statement		1,190			1,190
Derivatives			24,780		24,780
Debt securities	112,180				112,180
Funds entrusted	7,557				7,557
Subordinated debts	31				31
TOTAL LIABILITIES	**123,298**	**1,190**	**24,780**	**–**	**149,268**

LONG-TERM FOREIGN EXPOSURE

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

							30/06/2017
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational organisations	629	390				1,019	1,069
Multilateral development banks	812					812	904
Belgium		459		146		605	773
Denmark	50					50	51
Germany	1,555	70				1,625	2,008
Finland		716				716	830
France	402	988	100		46	1,536	1,882
United Kingdom	556	340	354	183	81	1,514	2,096
Italy		18	52	233	60	363	449
Austria		655				655	799
Portugal			57	35	204	296	286
Spain		239	496	366	124	1,225	1,267
United States	22					22	23
Switzerland	73		119			192	221
TOTAL	**4,099**	**3,875**	**1,178**	**963**	**515**	**10,630**	**12,658**

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

At the end of the first half of the year, the remaining principal amount of the non-investment grade exposure was EUR 515 million (2016: EUR 526 million). Of this amount, EUR 327 million consists of interest-bearing securities (IBS). These IBSs relate to several exposures in Spain, Portugal and Italy, which have largely been reclassified to the balance sheet item Loans and advances. The rest of the non-investment grade exposure (EUR 188 million) consists of a limited number of loans in France, the United Kingdom and Portugal. The French and British exposures mainly involve project financing in the area of infrastructure, education, energy and healthcare. The increase in the German exposure with an AAA rating relates to new investments in IBSs issued by a bank guaranteed by the German central government. In the first half of the year, the balance sheet value declined by EUR 404 million to EUR 12,658 million, largely as a result of the rise of the long-term interest rate.

INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

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

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

							30/06/2017
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/Supranational	5,247	3,226		297	46	8,816	10,574
Level I B – Covered bonds	1,144	70				1,214	1,292
Level II A – Government/ Supranational		57		8		65	98
Level II A – Covered bonds						0	0
Level II B – Corporates			25			25	29
Level II B – RMBS	1,101	1				1,102	1,117
	7,492	**3,354**	**25**	**305**	**46**	**11,222**	**13,110**
ALM PORTFOLIO							
RMBS		187	309	151	102	749	671
Covered bonds			206	114		320	379
ABS	71		175	33	60	339	339
NHG	942	166	316	2		1,426	1,426
Other	46	328	477	144	120	1,115	1,683
	1,059	**681**	**1,483**	**444**	**282**	**3,949**	**4,498**
TOTAL	**8,551**	**4,035**	**1,508**	**749**	**328**	**15,171**	**17,608**

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

FORBORNE EXPOSURES

Forbearance concerns credit agreements whose credit conditions have been amended in the debtor's favour as a result of the debtor's precarious financial position, so as to enable it to fulfil its obligations. BNG Bank provides both solvency-free lending, as well as lending subject to capital requirements. Solvency-free loans and advances are deemed to be free of credit risk on account of guarantees, collateral or by virtue of the status of the counterparty, such as Dutch local authorities. This protection is not present in the case of loans and advances that are subject to capital requirements. The following table does not include interest-bearing securities, since the bank is unable to change the conditions of such securities.

	30/06/2017		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE SHEET COMMITMENTS, EXCLUDING INCURRED LOSS PROVISION	IN % OF TOTAL	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE MEASURES
SOLVENCY-FREE	**87,498**	**89%**	**0**
SUBJECT TO CAPITAL REQUIREMENTS WITH INTERNAL RATINGS:			
– 1 through 11	11,092	11%	13
– 12 through 13	377	0%	20
– 14 through 17	406	0%	56
– 18 through 19	33	0%	–
	11,908	**11%**	**89**
	99,406	**100%**	**89**

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

The credit agreements whose contractual terms have changed as a result of the debtor's unfavourable financial position amounted to EUR 89 million at mid-year 2017 (year-end 2016: EUR 191 million). The share in the total loan portfolio is 0.1% (year-end 2016: 0.2%) and concerns four debtors (year-end 2016: 7 debtors). Of these, one debtor was classified as forborne in 2017 with an outstanding exposure of EUR 20 million (rating 13) and three debtors were already forborne in 2016 with a combined outstanding exposure of EUR 69 million.

NON-PERFORMING AND IMPAIRED EXPOSURES

Non-performing exposures are exposures:

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

The term 'past due' refers to the payment arrears commencing at the moment on which payment was contractually due.

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

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

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

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

	30/06/2017					
	EXPOSURES TO LOANS AND ADVANCES AND OFF-BALANCE SHEET COMMITMENTS, EXCLUDING INCURRED LOSS PROVISION	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES	INTEREST-BEARING SECURITIES	OF WHICH NON-PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES
Amounts due from banks				92	–	–
Financial assets at fair value through the income statement	863	–	–	1,307	–	–
Financial assets available-for-sale				14,853	–	–
Loans and advances	84,567	206	203	1,356	15	15
TOTAL BALANCE SHEET VALUE	**85,430**	**206**	**203**	**17,608**	**15**	**15**
Contingent liabilities	81	–				
Irrevocable facilities	7,607	14				
Revocable facilities	6,288	1				
TOTAL EXPOSURE	**99,406**	**221**	**203**	**17,608**	**15**	**15**

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

The non-performing exposure in interest-bearing securities relates to an investment in a Spanish securitisation.

The table below shows the movements in the non-performing exposure in loans and advances. The shift from performing to non-performing exposure of EUR 85 million is caused by two clients. The decline of the existing non-performing exposure by EUR 2 million is the result of (regular) repayments.

	FIRST HALF OF 2017	2016
OPENING BALANCE	**137**	**127**
Increase in existing non-performing exposure not requiring an individual provision	–	0
Increase in existing non-performing exposure with an individual provision	1	0
Shift from performing to non-performing exposure	85	91
Shift from non-performing to performing exposure	–	–17
Repayments on and settlement of non-performing exposure	–2	–64
CLOSING BALANCE	**221**	**137**

PROVISIONS POLICY FOR LOANS AND ADVANCES

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

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

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

Both provisions fall under the regulatory specific credit risk adjustment.

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

	30/06/2017	31/12/2016
Less than 31 days	0	0
31 through 60 days	0	–
61 through 90 days	–	–
Over 90 days	1	0
CLOSING BALANCE	**1**	**0**

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)

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

			30/06/2017
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance-sheet netting	13,573	24,797	–11,224
Gross value of the financial liabilities to be netted	2,551	2,551	–
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**11,022**	**22,246**	**–11,224**
Value of financial netting instrument that does not comply with IAS 32 (Netting of derivatives with the same counterparty) for netting purposes	9,127	9,127	–
EXPOSURE BEFORE COLLATERAL	**1,895**	**13,119**	**–11,224**
Value of financial collateral that does not comply with IAS 32 for netting purposes	855	13,630	–12,775
NET EXPOSURE	**1,040**	**–512**	**1,551**

			31/12/2016
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance-sheet netting	18,343	27,711	−9,368
Gross value of the financial liabilities to be netted	2,931	2,931	–
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**15,412**	**24,780**	**−9,368**
Value of financial netting instrument that does not comply with IAS 32 (Netting of derivatives with the same counterparty) for netting purposes	12,543	12,543	–
EXPOSURE BEFORE COLLATERAL	**2,869**	**12,237**	**−9,368**
Value of financial collateral that does not comply with IAS 32 for netting purposes	1,776	11,795	−10,019
NET EXPOSURE	**1,093**	**442**	**651**

At mid-year 2017, the collateral posted amounted to EUR 13.6 billion (2016: EUR 11.8 billion). A three-notch downgrade of BNG Bank's credit rating would increase this amount by EUR 35 million (2016: EUR 35 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, collateral obligations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the transfer price (not adjusted for transaction costs) which, regardless of the intention or capability, would be received if an asset was sold or the price which would be paid if a liability was transferred in an orderly transaction between market participants at the measurement date under the current market conditions. The assumption is that the valuation must be viewed from the perspective of market parties, whereby only the specific characteristics and limitations of the financial instrument are taken into consideration. A distinction is made between three levels of fair value, with the nature of the input factors and their significance for the total valuation being decisive for the correct classification in the hierarchy.

FAIR VALUE HIERARCHY

- **LEVEL 1**: valuation based on (unadjusted) quoted market prices of the instrument itself or, if unavailable, of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices reflect current and regularly occurring arm's length market transactions. The quoted market prices for financial assets and liabilities are based on mid-market prices.
- **LEVEL 2**: valuation based on a valuation technique using directly/indirectly observable market data other than quoted market prices as used at Level 1. This category includes instruments with a valuation that uses quoted prices in an active market for comparable instruments, quoted prices for identical or comparable instruments in markets deemed to be less than active or other valuation techniques whereby all significant input variables are directly or indirectly observable from market data.
- **LEVEL 3**: valuation based on valuation techniques that make significant use of input data that are not publicly observable in the market. This category includes instruments with a valuation technique that uses input

variables that are not based on observable market data and whereby the non-observable market data significantly influences the valuation of the instrument. This category also includes the instruments valued in accordance with the quoted prices for comparable instruments whereby significant not publicly observable changes or presumptions are necessary for expressing the differences between the instruments.

Where possible, BNG Bank uses quoted market prices (Level 1). Quoted market prices are based on bid prices (for financial assets) and ask prices (for financial liabilities). Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset. BNG Bank uses mid-market prices for valuation purposes.

In many cases, the bank is reliant on theoretical valuations (Level 2) in respect of its debtors. In such cases, the fair value is determined on the basis of valuation models and techniques that are customarily used in the financial sector. These are mostly models based on net present value calculations and option pricing models. The input for these models is based on direct or indirect objectively observable input data, such as market prices, forward pricing, market-based yield curves for discounting, correlations, volatilities, cross-currency basis spreads, counterparty creditworthiness and other factors, estimates and assumptions which market parties would use to determine the price. The bank uses so-called spread curves to determine the fair value of financial instruments that involve credit and liquidity risk and for which a theoretical valuation is required. These spread curves are constructed on the basis of the relevant interest rate curve and a spread for credit and liquidity risk. The credit risk spread is dependent on the creditworthiness of the debtor, taking into account the collateral received, guarantees and maturities. The liquidity risk spread depends on the degree of marketability of the instrument. The risk profiles of individual clients and financial instruments are assessed at least once per quarter. If necessary, the credit-risk spread will be adjusted.

In a limited number of cases, the valuation of the bank's financial instruments is based to a significant extent on input data and management estimates which are not publicly observable in the market (Level 3).

A 'Credit Valuation Adjustment (CVA)' for the counterparty credit risk is included in the determination of the fair value for all derivatives transactions with all clients and financial counterparties with which the bank does not have an agreement for the daily exchange of collateral. The CVA is also applied, in determining the fair value, to all derivatives transactions with clients or counterparties with which the bank has an agreement for the daily exchange of collateral which is not regarded as sufficiently strong. The bank also applies adjustments to its own credit risk, the Debit Valuation Adjustment (DVA), in the fair value of derivatives transactions with clients and financial counterparties with which the bank does not have an agreement, or no sufficiently strong agreement, for the daily exchange of collateral.

As of 1 January 2016, the bank has applied a spread over swap curve for its own credit risk, the 'Own Credit Adjustment (OCA)'. The OCA only relates to instruments included under Financial liabilities at fair value through the income statement. Further information may be found in the notes under Disclosure of comparative figures.

Insofar as financial instruments have the character of a forward contract, official forward prices are used, including forward yield curves and forward exchange rates. In the case of complex instruments, the constituent parts of the instrument are measured separately on the basis of the above techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts. BNG Bank applies only recurring fair values, which are measured on an ongoing basis for processing in the financial position at the end of each reporting period.

	30/06/2017		31/12/2016	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances held with central banks	6,680	6,680	6,417	6,417
Amounts due from banks	13,414	13,417	11,795	11,800
Financial assets at fair value through the income statement	2,170	2,170	2,350	2,350
Derivatives	11,013	11,013	15,412	15,412
Financial assets available-for-sale	14,886	14,886	15,437	15,437
Loans and advances	85,879	99,679	87,576	103,920
Value adjustments on loans involved in portfolio hedge accounting	12,173	–	14,894	–
TOTAL FINANCIAL ASSETS	**146,215**	**147,843**	**153,881**	**155,336**
Amounts due to banks	3,077	3,075	3,530	3,529
Financial liabilities at fair value through the income statement	1,132	1,132	1,190	1,190
Derivatives	22,277	22,277	24,780	24,780
Debt securities	108,134	109,067	112,180	113,085
Funds entrusted	6,699	6,972	7,557	7,845
Subordinated debts	31	46	31	47
TOTAL FINANCIAL LIABILITIES	**141,350**	**142,569**	**149,268**	**150,476**

When effecting a transaction, the hierarchical classification of fair value is determined on the basis of the relevant characteristics of the valuation, with the nature of the input factors and their significance for the total valuation being decisive for the classification. The classification takes place on the basis of the lowest input level that is significant for the fair value in the transaction as a whole. Significance is assessed by determining the influence of non-observable input factors on the outcome of the total valuation, with due regard for the range of possible alternative assumptions concerning those non-observable input factors. Each quarter, the hierarchical classification of each transaction is assessed and adjusted where necessary.

The next table provides an overview of the fair value hierarchy for transactions recognised at fair value.

				30/06/2017
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	238	1,307	625	2,170
Derivatives	–	10,995	18	11,013
Financial assets available-for-sale	11,587	3,266	33	14,886
TOTAL FINANCIAL ASSETS	**11,825**	**15,568**	**676**	**28,069**
Financial liabilities at fair value through the income statement	–	1,132	–	1,132
Derivatives	–	22,257	20	22,277
TOTAL FINANCIAL LIABILITIES	**–**	**23,389**	**20**	**23,409**

				31/12/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	338	1,358	654	2,350
Derivatives	–	15,386	26	15,412
Financial assets available-for-sale	11,847	3,565	25	15,437
TOTAL FINANCIAL ASSETS	**12,185**	**20,309**	**705**	**33,199**
Financial liabilities at fair value through the income statement	–	1,190	–	1,190
Derivatives	–	24,749	31	24,780
TOTAL FINANCIAL LIABILITIES	**–**	**25,939**	**31**	**25,970**

SIGNIFICANT MOVEMENTS IN FAIR VALUE LEVEL 3 ITEMS

	FIRST HALF OF 2017							
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (STATED AS LIABILITIES)	
OPENING BALANCE		**654**		**26**		**25**		**31**
Results through the income statement								
– Interest result	6		3		0		3	
– Unrealised result on financial transactions	–15		–9		0		–12	
– Realised result on financial transactions	0		0		0		0	
		–9		–6		0		–9
Unrealised value adjustments via the revaluation reserve		–		–		4		–
Investments		0		0		0		0
Cash flows		–20		–2		4		–2
Transferred to Level 2		0		0		0		0
Transferred from Level 2		0		0		0		0
Derivatives transferred from assets to liabilities and vice versa		–		0		–		0
CLOSING BALANCE		**625**		**18**		**33**		**20**

				2016
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (STATED AS ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (STATED AS LIABILITIES)
OPENING BALANCE	**626**	**35**	**68**	**44**
Results through the income statement				
– Interest result	9	4	0	6
– Unrealised result on financial transactions	85	–13	0	–17
– Realised result on financial transactions	0	0	–4	–1
	94	–9	–4	–12
Unrealised value adjustments via the revaluation reserve	–	–	5	–
Investments	0	0	0	0
Cash flows	–66	0	0	–1
Transferred to Level 2	0	0	–44	0
Transferred from Level 2	0	0	0	0
Derivatives transferred from assets to liabilities and vice versa	–	0	–	0
CLOSING BALANCE	**654**	**26**	**25**	**31**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded. Because there is no such trade, the observable market data available for similar securities are not fully representative of the current fair value. Therefore, the fair value of these transactions is determined on the basis of public market data that are adjusted using significant input variables not publicly observable in the market. There were no reclassifications from and to Level 3 during the reporting period.

INPUT VARIABLES WHICH ARE NOT PUBLICLY OBSERVABLE IN THE MARKET

In determining the fair value of Level 3 assets and liabilities, BNG Bank applies the following significant input variables not publicly observable in the market.

FINANCIAL ASSETS AT FAIR VALUE

For the purpose of determining the spreads of three inflation-related interest-bearing securities with a monoline guarantee, the following input variables which are not publicly observable in the market are used:

- recovery rates for the relevant debtors (40%) and the relevant monoline insurers (30%);
- a correlation factor between the debtor and the monoline insurer (20%).

These input variables remained unchanged compared to 2016. Due to the absence of public market data, specific liquidity risk spreads were applied in determining the individual spread curves for the purpose of valuing an RMBS transaction with an NHG guarantee and a Portuguese debtor.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

In determining the market value of two participations in an infrastructure fund, the price was established on the basis of the fund's net asset value.

DERIVATIVES (ASSETS AND LIABILITIES)

The relevant derivatives (assets and liabilities) contain a Level 3 floor option. This option acquires value if the variable interest rate drops below 0%. The underlying curve is modelled because there are no publicly observable input variables in the market.

SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 ASSETS AND LIABILITIES TO A MOVEMENT IN SIGNIFICANT INPUT FACTORS

In the sensitivity analysis, the components interest, inflation, liquidity and credit spreads are presented in both separate and correlated figures. The following table indicates the sensitivity of Level 3 assets in the event of a separate absolute parallel movement in these significant input factors. Despite the fact that there are no direct dependencies between these input factors, the total sensitivity of the instruments in the event of a simultaneous shift in these three input factors is also presented.

IMPACT ON BALANCE SHEET VALUE OF A MOVEMENT IN RELEVANT INPUT FACTORS

	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016	30/6/2017	31/12/2016
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (STATED AS LIABILITIES)		TOTAL	
BALANCE SHEET VALUE	625	654	18	26	33	25	20	31	656	674
INTEREST RATE										
+10 basis points	−8	−8	−4	−4	0	0	1	0	−11	−12
−10 basis points	8	8	4	4	0	0	0	0	12	12
+100 basis points	−66	−71	−38	−41	0	0	3	−2	−101	−114
−100 basis points	91	98	41	44	0	0	−5	1	127	143
INFLATION RATE										
+10 basis points	7	8	0	0	0	0	0	0	7	8
−10 basis points	−7	−8	0	0	0	0	0	0	−7	−8
+100 basis points	87	94	0	0	0	0	0	0	87	94
−100 basis points	−65	−70	0	0	0	0	0	0	−65	−70
CREDIT AND LIQUIDITY SPREAD										
+10 basis points	−9	−10	2	2	0	0	1	2	−6	−6
−10 basis points	10	10	−2	−2	0	0	−1	−2	7	6
+100 basis points	−83	−89	34	34	0	0	1	10	−48	−45
−100 basis points	110	118	−14	−15	0	0	−21	−30	75	73
TOTAL SIGNIFICANT INPUT FACTORS										
+10 basis points	−10	−10	−1	−2	0	0	1	2	−10	−10
−10 basis points	10	11	2	2	0	0	−2	−2	10	11
+100 basis points	−83	−89	−5	−9	0	0	5	9	−83	−89
−100 basis points	114	124	27	29	0	0	−27	−29	114	124

BNG Bank hedges nearly all its interest rate risks through swaps. The fair value changes of interest-bearing securities arising from a change in the interest curve alone therefore have a limited impact on the bank's result and equity. By the end of the maturity of the assets and the associated swaps, these changes in market value will approach zero, provided that all parties have met their payment obligations. On the other hand, interest rate shifts caused by a change in credit and liquidity risk spreads do have a direct impact on the result and the equity.

A large part of the level 3 instruments in the Financial assets at fair value through the income statement balance sheet item (EUR 348 million) consists of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. The default risk of these transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees were set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 63 million at mid-year 2017 (year-end 2016: EUR 76 million negative). The exposure of the expected future cash flows of these inflation-linked instruments declined in the first half of 2017. As a result, these instruments have become less sensitive to fluctuations in relevant risk factors, so the impact of stress scenarios is lower than at the end of 2016.

The sensitivity of the fair value level 3 instruments in the Financial assets available-for-sale balance sheet item is zero because it concerns equity instruments.

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

The table below provides an overview of the way in which the fair value is determined for transactions recognised at amortised cost in the balance sheet.

				30/06/2017
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	6,680	–	–	6,680
Amounts due from banks	99	13,309	9	13,417
Loans and advances	1,166	91,043	7,470	99,679
TOTAL FINANCIAL ASSETS	**7,945**	**104,352**	**7,479**	**119,776**
Amounts due to banks	–	3,075	–	3,075
Debt securities	75,090	32,811	1,166	109,067
Funds entrusted	2,215	61	4,696	6,972
Subordinated debts	–	–	46	46
TOTAL FINANCIAL LIABILITIES	**77,305**	**35,947**	**5,908**	**119,160**

				31/12/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	6,417	–	–	6,417
Amounts due from banks	248	11,541	11	11,800
Loans and advances	1,542	94,950	7,428	103,920
TOTAL FINANCIAL ASSETS	**8,207**	**106,491**	**7,439**	**122,137**
Amounts due to banks	–	3,529	–	3,529
Debt securities	83,388	28,435	1,262	113,085
Funds entrusted	1,955	78	5,812	7,845
Subordinated debts	–	–	47	47
TOTAL FINANCIAL LIABILITIES	**85,343**	**32,042**	**7,121**	**124,506**

The financial assets at amortised cost under Level 3 mainly relate to loans and advances subject to capital requirements to BNG Bank's statutory clients. These assets also include the fair value of the assets that have been reclassified under the balance sheet item Loans and advances since 2008, having previously been recognised under the balance sheet item Financial assets available-for-sale, to the extent revaluation is effected using data that is not publicly observable in the market.

Loans and advances to statutory counterparties under government guarantees are included in Level 2, on account of the strong correlation with bonds issued by the Dutch State.

The financial liabilities at amortised cost under Level 1 relate to negotiable benchmark bonds issued by BNG Bank (Debt securities item). Private loans are classified under Level 3 (Debt securities and Funds entrusted items).

OFF-BALANCE SHEET COMMITMENTS

CONTINGENT LIABILITIES

This includes all commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. To a limited extent, these guarantees are covered by a counter guarantee from public authorities. These are mainly Letters of Credit with a remaining contractual maturity of more than five years, which the bank has issued on behalf of clients in the public utilities sector. BNG Bank records liabilities at the underlying principal amount that would need to be paid in the event of the borrower defaulting.

REVOCABLE FACILITIES

This includes all commitments attributable to revocable current-account facilities.

IRREVOCABLE FACILITIES

This includes all irrevocable commitments that can lead to the granting of loans and advances. In the next table, these facilities are divided into credit facilities and future disbursements of contracted loans and advances.

	30/06/2017	31/12/2016
Contingent liabilities	81	105
Revocable facilities	6,288	6,998
Irrevocable facilities:		
– Undrawn parts of credit facilities	5,165	4,566
– Future disbursements of contracted loans and advances	2,442	2,337
TOTAL OFF-BALANCE SHEET COMMITMENTS	**13,976**	**14,006**

EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to the balance sheet date to report that require adjustments of the figures or disclosure in the Interim Report.

The Hague, 25 August 2017

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIR

O.J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR

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

C.J. BEUVING

L.M.M. BOLSIUS

T.J.F.M. BOVENS

J.B.S. CONIJN

MS J. KRIENS

J.C.M. VAN RUTTE

Review report

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

AUDIT ENGAGEMENT

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 30 June 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the period between 1 January 2017 and 30 June 2017 inclusive and the explanatory notes. The Executive Board 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 on the basis of our review.

SCOPE OF WORK

We conducted our review of the interim financial information in accordance with Dutch law, including Accounting Standard 2410 'Review of Interim Financial Information Performed by the 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 covering the period between 1 January 2017 and 30 June 2017 inclusive was not prepared, in all material aspects, in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 25 August 2017

PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.
ORIGINAL HAS BEEN SIGNED BY
R.E.H.M. VAN ADRICHEM RA