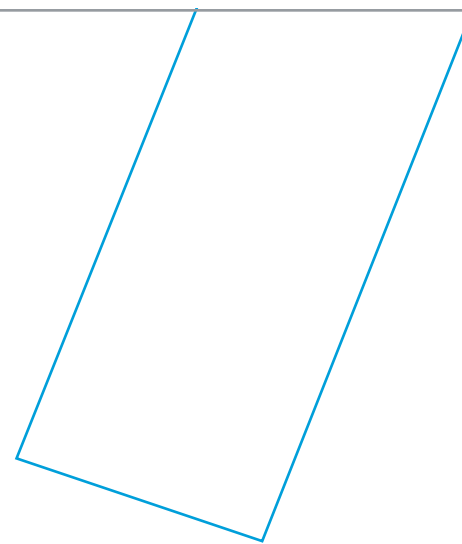
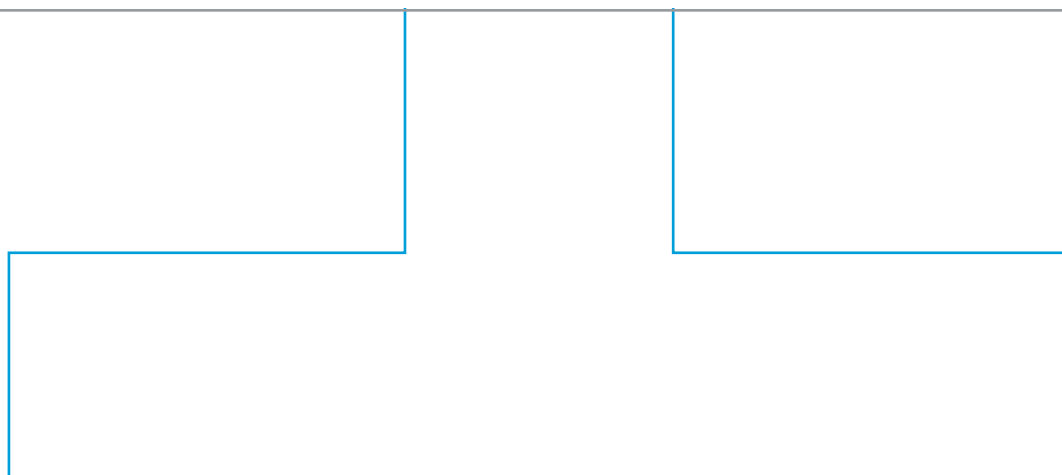


Annual Report

BNG Bank 2017



This is an unofficial translation of the Annual Report BNG Bank 2017 which is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.

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Profile

MISSION

BNG Bank is the bank for local authorities and public sector institutions. The bank is a committed partner and creates value by providing affordable and sustainable financing. The bank provides its clients with a wide range of financial services, including loans and advances, payment transactions, area development, sustainable project financing and participating interests in public-private partnerships. In this way, the bank contributes to minimising the costs of social provisions for the Dutch public as well as a more sustainable Netherlands and, by extension, to achieving the UN Sustainable Development Goals.

Committed partner means that the bank knows its client groups and contributes to resolving current or future problems in the sectors in which they operate. At an individual level, the bank tailors its services to the client's needs and professionalism.

CORE VALUES

BNG Bank's core values are: sustainable, reliable and professional. Sustainable is interpreted by BNG Bank as simultaneously serving the interest of people, planet and profit. This notion is inextricably linked to our mission. To implement it, the bank encourages clients to take initiatives aimed at creating a more sustainable society and organises its operations to guarantee professionalism and low environmental impact.

Reliable means in the light of its public role that BNG is a safe bank that is visible to and distinctive for its stakeholders. Most of the bank's lending is guaranteed by the Dutch central government or local public authorities. BNG Bank provides these services regardless of the economic conditions in the Netherlands. The bank is always open for business.

Professional means that the bank is continuously developing its services, human capital and information provision further. This value is translated into its human resource policy and commercial operations.

CREDITWORTHINESS

A prerequisite for value creation by the bank is its creditworthiness. After the Dutch State, BNG Bank is one of the largest issuers of debt securities in the Netherlands. The bank's credit rating is AAA from Standard & Poor's, Aaa from Moody's and AA+ from Fitch. BNG Bank is ranked among the world's five safest banks. The bank's excellent creditworthiness provides it with a strong funding position on the international money and capital markets.

LEGAL STATUS

BNG Bank is a statutory two-tier company under Dutch law and was founded in 1914 by Dutch public authorities. Half of the bank's share capital is held by the Dutch State and the other half by Dutch municipal authorities, provincial authorities and a water board. The bank is established in The Hague, where it has its sole office, and employs more than 300 people.

Selected financial data

	2017	2016	2015	2014	2013
SELECTED FINANCIAL DATA					
(Amounts in millions of euros)					
Balance sheet total	140,025	154,000	149,511	153,505	131,183
Loans and advances	86,008	87,576	89,366	90,732	92,074
– of which granted to or guaranteed by public authorities	77,727	79,304	80,159	81,036	81,701
– of which reclassified from the 'Financial assets available-for-sale' item	831	1,195	1,575	1,779	2,259
Shareholders' equity ¹	4,220	3,753	3,739	3,582	3,430
– Hybrid capital	733	733	424	–	–
Equity per share (in euros) ¹	75.79	67.39	67.14	64.32	61.59
Leverage ratio ²	3.5%	3.0%	2.6%	2.0%	2.3%
Common Equity Tier 1 ratio ²	30%	26%	23%	24%	24%
Tier 1 ratio ²	37%	32%	27%	24%	24%
Total Risk-Weighted Assets	11,641	12,328	12,797	11,681	11,530
Liquidity Coverage Ratio (LCR)	207%	173%	171%	168%	188%
Net Stable Funding Ratio (NSFR)	130%	130%	120%	103%	108%
Profit before tax	536	503	314	179	397
Net profit	393	369	226	126	283
Net profit attributable to the holders of hybrid capital	18	4	–	–	–
Net profit available to shareholders	375	365	226	126	283
Profit available to shareholders per share (in euros)	6.73	6.62	4.06	2.26	5.08
Continued on next page					

¹ Equity excluding hybrid capital.

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

Continuation of previous page	2017	2016	2015	2014	2013
SELECTED FINANCIAL DATA					
(Amounts in millions of euros)					
Proposed dividend	141	91	57	32	71
Dividend as a percentage of the consolidated net profit available to shareholders	37.5%	25%	25%	25%	25%
Dividend per share (in euros)	2.53	1.64	1.02	0.57	1.27
Return on assets	0.28%	0.24%	0.15%	0.08%	0.22%
SOCIAL					
Number of staff (in FTEs) at year-end	303	292 ³	285	278	273
– of whom employed by subsidiaries	14	15	25	27	29
Sickness absence	3.0% ⁴	3.4%	2.9%	2.4%	2.8%
Funding raised by means of SRI bonds	1,383	1,560	650	500	–
ENVIRONMENT					
CO ₂ emissions (total, in tonnes) ⁵	515	540	511	480	560
Per FTE (in tonnes)	1.7	1.9	1.8	1.7	2.1

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

⁴ The methodology used to measure sickness absence was changed in 2017. The figure is not directly comparable with those of previous years. Please see the appendix containing the data measuring technique for CSR reporting purposes for the details.

⁵ The conversion factors for the calculation of CO₂ emissions have changed. The emissions for 2016 have been recalculated on the same basis. The figures for 2016 and 2017 are not directly comparable with those of previous years. Please see the appendix containing the data measuring technique for CSR reporting purposes for the details.

Foreword

In 2017, BNG Bank again fulfilled its mission – providing funding to public authorities and public sector institutions at attractive lending rates. In total, EUR 9.5 billion was provided in long-term loans, the bulk of which went to municipalities, housing associations and healthcare institutions.

Supplementary to the existing package of financial services, we developed new products for our clients in relation to sustainability and export financing. The Public Real Estate Scan was introduced in spring. In just a few months, by using this tool, municipalities identified one million square metres of public real estate whose sustainability can be improved. The BNG Sustainability Fund was formed in December. Associations, economic operators and other initiators can take out a loan ranging between EUR 100,000 and EUR 2.5 million with this revolving fund for projects which contribute to the sustainability goals of municipalities or provinces. The year 2017 also saw the start of the refinancing of export credits under the central government's Export Credit Guarantee. Three transactions with a total value in excess of USD 300 million have now been effected, showing that we are implementing government policy aimed at supporting Dutch companies.

We have supported our clients with the realisation of their objectives for a sustainable society. For instance, wind energy, biomass, bioenergy, geothermal heat and district heating projects were funded, while we were also involved in the financing of more than 150,000 solar panels in 2017.

EUR 17.7 billion was raised on the capital market in the reporting year to finance the loans granted. This figure includes two new sustainable bonds. Since 2014, we have issued a total of six sustainable bonds for the amount of EUR 4.1 billion, making us one of the leaders in this field within the banking industry.

We achieved our financial objectives and retained our excellent credit rating. The net profit rose by 6.5% to EUR 393 million. Thanks to the favourable rates for new funds raised, the interest result increased to EUR 435 million, a rise of EUR 30 million compared with 2016. The result on financial transactions was EUR 181 million positive (2016: EUR 118 million positive). The unrealised market value changes contributed substantially to this result (EUR 129 million).

Associations and economic operators
can **take out loans** with the
BNG Sustainability Fund for projects
which contribute towards the **sustainability**
goals of municipalities or provinces.

Solvency improved further in 2017. The bank's Tier 1 ratio rose to 37%. Influenced by the rise of Tier 1 capital and the decline of the balance sheet total, the bank's leverage ratio increased by 0.5% to 3.5% compared with the end of 2016.

The current leverage ratio level prompted BNG Bank to increase the dividend. The bank proposes to distribute 37.5% (2016: 25%) of the available profit after taxation. This percentage represents a dividend of EUR 141 million (2016: EUR 91 million). It is expected that certainty as to the introduction of the leverage ratio will be obtained in 2018, after which BNG Bank will evaluate its capitalisation and dividend policy.

On behalf of the Executive Board, I would like to thank our shareholders, clients, suppliers, Supervisory Board members, employees and other stakeholders for their contribution to BNG Bank's performance in 2017. The value of BNG Bank's strategy was once again demonstrated in the past year and is one of the reasons why we have confidence in the year ahead as well.

On behalf of the Executive Board,

GITA SALDEN

CHAIR (IN OFFICE SINCE 1 JANUARY 2018)

The Hague, 9 March 2018

**Tier 1
ratio
increased
to**

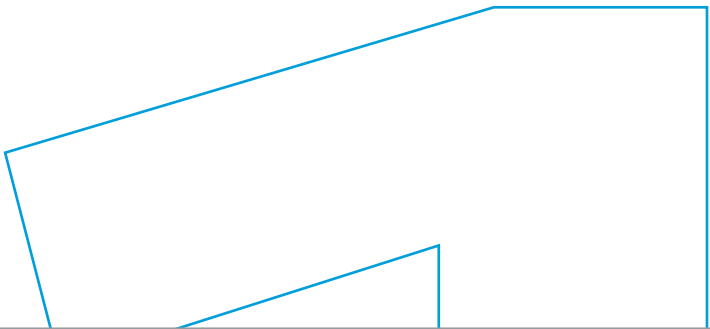


37%

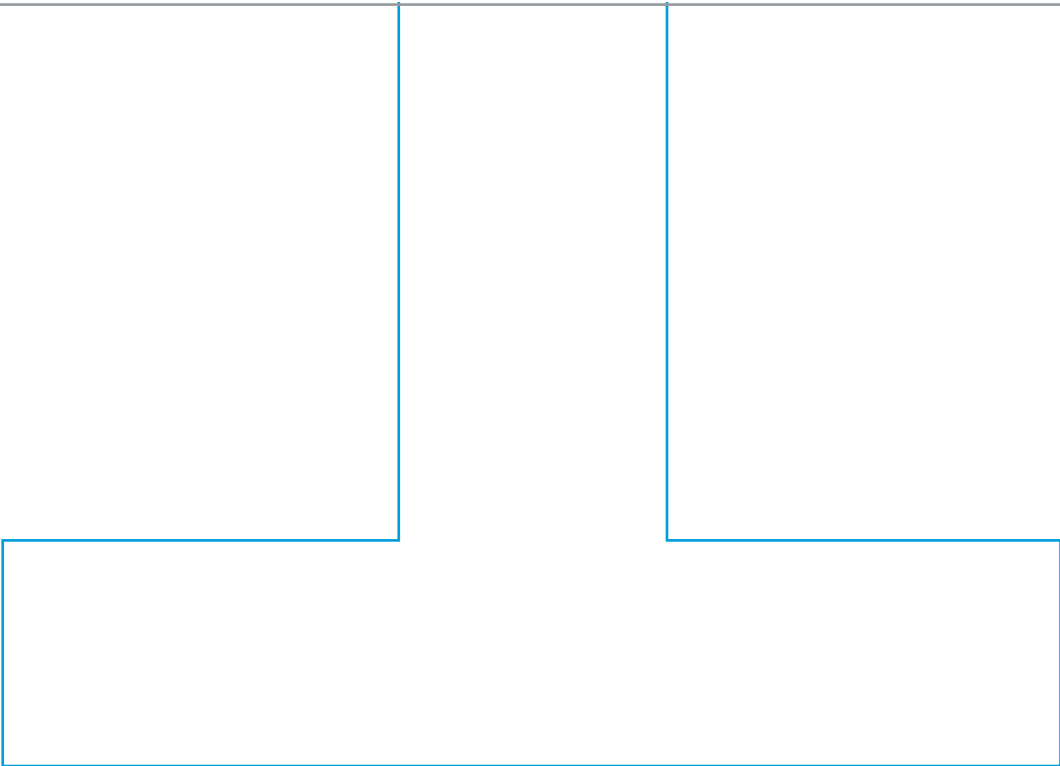
**Leverage
ratio
increased
to**



3.5%



Report of the Executive Board



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Economic and social developments

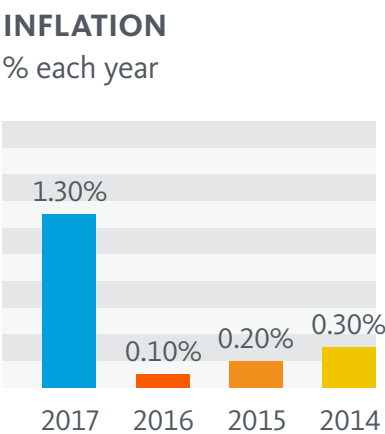
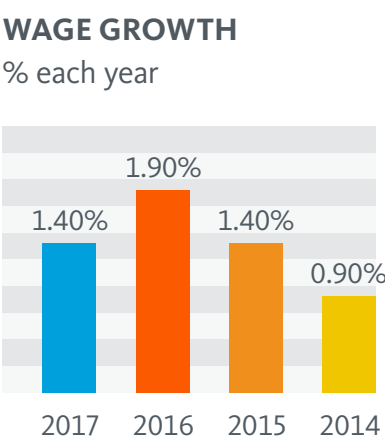
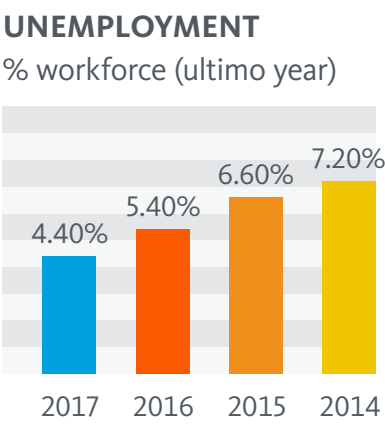
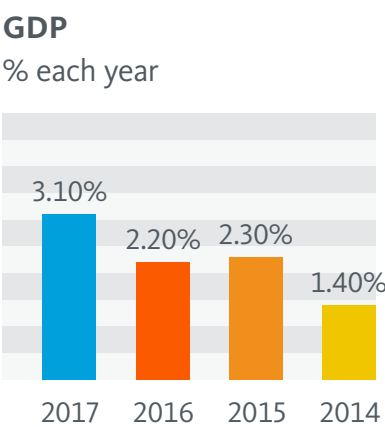
MACRO-ECONOMIC DEVELOPMENTS

HIGHEST ECONOMIC GROWTH IN 10 YEARS

The Dutch economy experienced the strongest growth since 2007 in the year under review. Gross Domestic Product (GDP) increased by roughly 3.1%, approximately 1 percentage point more than in 2016. As a small open economy, the Netherlands benefited from the economic upturn in countries across Europe. Driven in part by increasing demand in those countries, exports grew more strongly than last year. The development in consumption was also more positive than in 2016. Confidence among households increased significantly thanks to the thriving labour market. The number of people in paid employment grew by approximately 175,000, or 2.1%. Unemployment fell from 5.4% to 4.4% of the workforce, a historically low level. Housing investments increased further partly due to the low interest rates, although the growth was lower than in 2016. A decline in the supply of housing meant that house prices grew more strongly than in 2016.

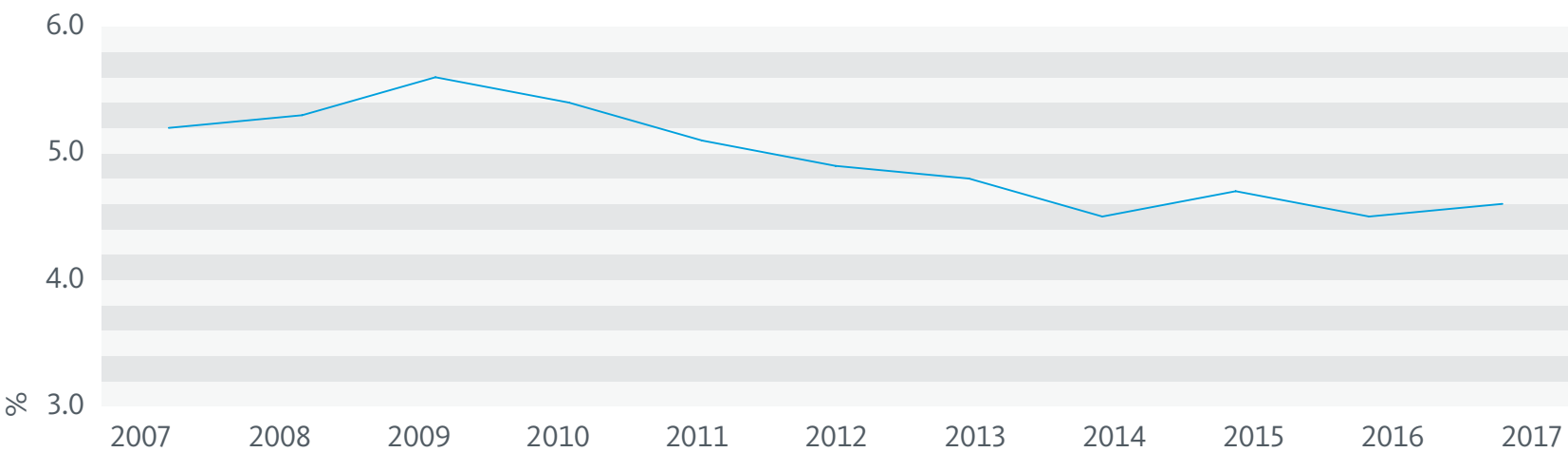
Despite the tightening of the labour market, wage growth remained moderate in the Netherlands. Contractual wages rose by 1.4%, whereas pay rose by 1.9% in 2016. While the higher price of oil drove up energy prices, inflation remained low. Consumer prices rose by an average of 1.3% in the past reporting year, compared to 0.1% in 2016.

Economic growth was not evenly spread across all the sectors. The picture for the sectors which cover the bank’s core clients is as follows. In the real estate sales and rental sector, which covers the housing associations, there was a moderate increase of economic activity. In the non-commercial services sector, covering public authorities, healthcare and education, the growth of economic activity lagged behind that in most other business sectors. The investment in fixed assets by this sector remained at a low level in 2017 (see the figure ‘Investment in fixed assets non-commercial services sector (% GDP)’ on the next page). Investments in these sectors have declined since 2010. This decline is also tied in with budgetary policies.



INVESTMENT IN FIXED ASSETS NON-COMMERCIAL SERVICES SECTOR (% GDP)

Source: Macrobond



BUDGETARY EASING

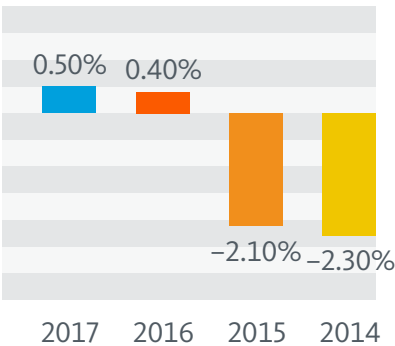
Thanks to the favourable economic situation, government finances in the Netherlands developed strongly. General government recorded a surplus once again in 2017. The EMU deficit was 0.5% of GDP, compared to 0.4% in 2016. Gross government debt declined by approximately 4 percentage points to 58% of GDP, slightly below the reference value of 60% of GDP. Both gross government debt and the EMU deficit are at a low level compared with other euro zone countries. The principal rating agencies maintained the credit rating of the Dutch State at the highest level. In conjunction with this assessment, BNG Bank’s credit ratings also remained at a high level.

The new government, which took office at the end of October 2017, has decided to relax budgetary policy. Among other things, spending on social security, defence and education will be raised, while taxes and social security contributions will be reduced in the forthcoming government’s term of office. A lowering of income tax and corporate income tax rates will be offset by an increase in the low rate of VAT and energy tax. The budgetary policy will result in a structural increase of the budgetary scope for municipalities and other local authorities.

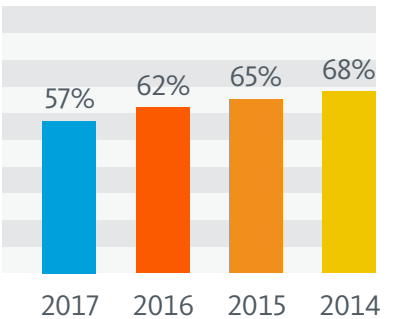
FINANCING CONDITIONS REMAIN FAVOURABLE

Thanks to the sustained economic growth, the risk of deflation in the euro zone decreased. While inflation in the euro area rose slightly, it remained below the ECB’s inflation target. In November 2017, the ECB decided to extend its bond purchase programme to September 2018 in any event but to cut the volume of related securities purchases in January 2018 from EUR 60 billion per month to EUR 30 billion. The deposit rate and the refinancing rate remained unchanged at -0.4% and 0.0%, respectively. Monetary policy also remained liberal in most other Western countries in 2017. An exception was the United States, where the Federal Reserve raised interest rates slightly. The US central bank furthermore decided gradually to reduce the securities portfolio by no longer reinvesting part of the redemptions.

GOVERNMENT BALANCE
as % of GDP

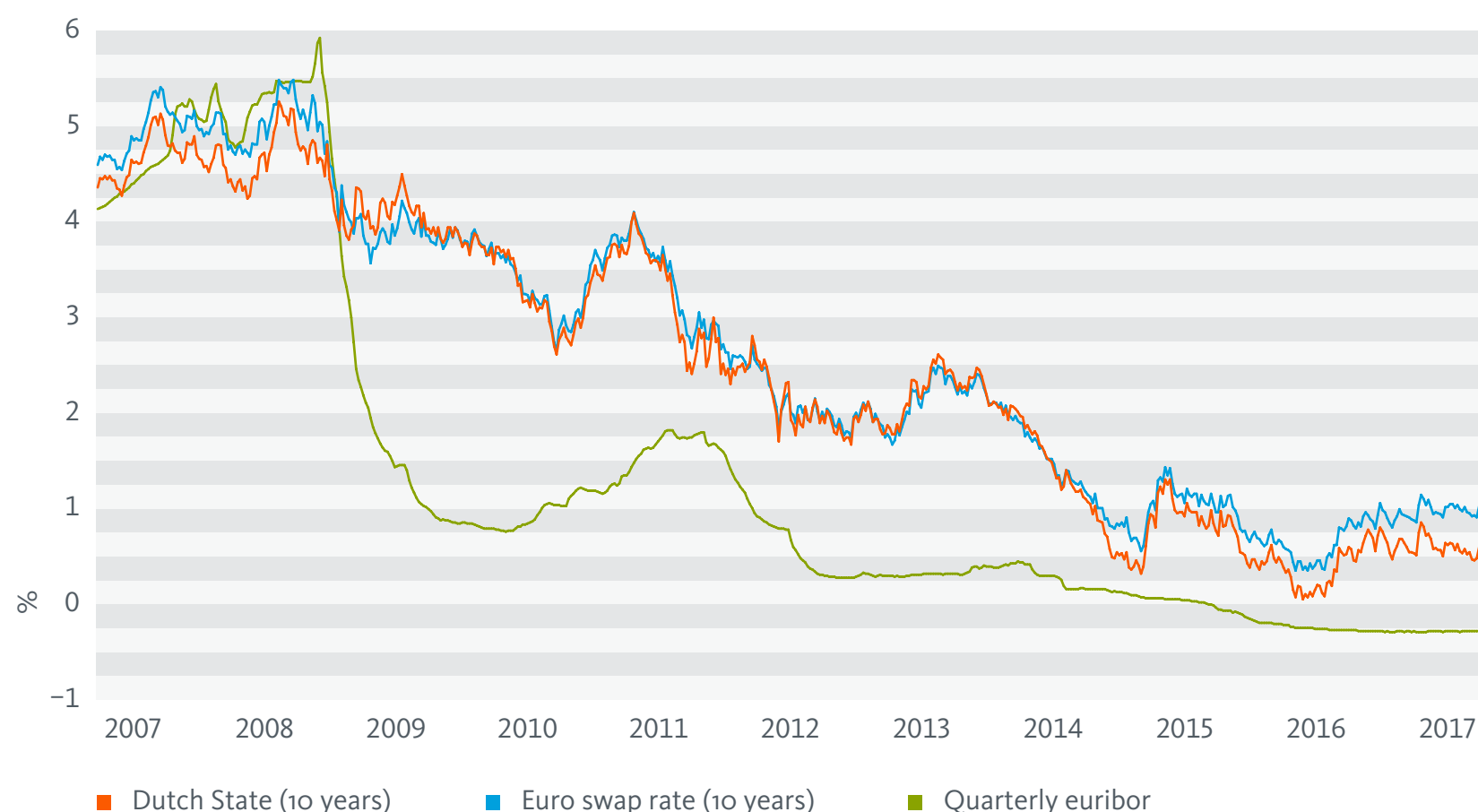


GOVERNMENT DEBT
as % of GDP



INTEREST RATES

Source: Macrobond



Thanks to the liberal monetary policy, BNG Bank's clients were able to raise funds at very attractive interest rates (graph above). On the money market, the main short-term interest rate 3M Euribor remained stable at -0.3% in 2017. Long-term interest rates also remained at very low levels in the euro zone. The 10-year euro swap rate rose by 0.2 percentage point last year to 0.9%. That figure is significantly lower than the average rate of 2.5% in the previous decade. The rate for Dutch government loans was 0.5% at the end of the year, fractionally higher than in the previous year.

DEVELOPMENTS AMONG CLIENTS

PUBLIC SECTOR

In recent years, many tasks in the social services domain have been devolved to municipalities, while they were also set – sometimes challenging – budgetary targets at the same time. The higher growth of costs in the social services domain saw several municipalities facing deficits in 2017. During the negotiations to form a new government, municipalities were left in uncertainty for a long time on the incoming administration's plans for these deficits.

The coalition agreement underpinning the Third Rutte cabinet expands the 'trap-op trap-af' system, whereby the resources available in the Municipal Fund are linked to central government expenditure. From 2018, the linkage also applies to central government healthcare spending and welfare/social security spending. This system has the effect of improving the stability of the Municipal Fund and ensuring that the growing healthcare costs can be met. The expansion of taxation powers supported by local authorities failed to gain approval. Expenditure cuts on staff and equipment as well as reduced payments from the Municipal Fund for efficiency reasons were retained. The government assumes that efficiency improvements are possible.

DEVELOPMENT LOCATIONS MAJOR PLANNING CHALLENGE

General demographic developments such as downscaling of households, an ageing population and migration to cities were hardly impacted at all by the crisis. There has been no decline in the latent demand for owner-occupied homes, as shown by the house prices increases in large towns and cities from the moment that consumer confidence rose. With few new homes having been built since 2008, increasing demand results in high prices.

Demographic developments are expected to create a residential construction requirement of around one million homes in the period to 2040. By way of illustration: the Fourth Memorandum on Physical Planning-Plus envisaged in the 1990s that 700,000 new VINEX homes would be built. Studies (included BNG Bank's own analyses) show that roughly one third of these homes can be built in inner urban areas. That figure means that two thirds must be built outside towns and cities. Municipalities face a substantial challenge to find spatial planning as well as financial scope to accommodate this challenge.

Responsibility for spatial planning has been largely devolved to the municipalities, with a limited role for the provinces. National, or at least regional, coordination is essential if this construction requirement is to be met successfully. It is debatable whether responsibility for national planning in the Netherlands, which is a densely populated country, can be devolved to the same municipalities who are already shouldering many additional tasks formerly performed at central government level.

The Environmental and Planning Act, which is expected to enter into force shortly, will require each municipality to draw up a single environmental plan for the entire municipality from 2021. Currently, the Netherlands is a patchwork of zoning plans (roughly 19,500 in total).

SUSTAINABILITY AMBITIONS

Of relevance in this regard is that central government sees 'Energy as part of Spatial Planning'. The coalition agreement provides general details on issues such as the circular economy and climate adaptation. Our landscape will change due to the energy transition. Those changes will be manifest in the installation of windmills, solar panels and high-voltage power lines, for example, as well as relocations of heat consumers (e.g. greenhouses) to be closer to geothermal heat sources.

The coalition agreement enshrines the ambition to make 30,000 to 50,000 existing homes gas-free each year by 2021 and to ensure that the entire housing stock (roughly 7 million homes) is sustainable by 2050. Municipalities also have an important role to play in achieving this ambition.

Improving sustainability is now very much on the agenda of municipalities and provinces. Among other things, this fact is expressed in further improvement of the sustainability score based on the National Monitor of Sustainable Municipalities produced by Telos, the institute for sustainable development of Tilburg University. The average score in 2017 was 50.6%, an improvement of 1.4% compared to 2016. At the same time, the score makes clear that there is still plenty of scope for municipalities to improve their sustainability performance. Of the 17 Global Goals that were adopted by 193 UN member states in 2015, Dutch municipalities score well on health, water and climate.

Municipalities are set to raise **cooperation** and **investment** levels in order to perform the tasks under the coalition agreement.

Sufficient funds are a **logical** prerequisite if they are to succeed in this.

It is expected that municipalities will collaborate more (join forces) to meet these challenges. 2018 and 2019 will be crucial years. A proactive approach is essential; substantial investment by local authorities, whether or not in partnership with market parties, is vital to fulfil all the wishes of the EU and the Dutch central government. Sufficient financial and other resources to carry out these tasks effectively are a logical precondition.

HOUSING ASSOCIATIONS

The financial position of housing associations has improved in recent years, having taken place against the background of reduced investment. This development has led to a decline in the debt position of the sector, which in turn has led to a decrease of the bank's loan portfolio. The most recent capital expenditure projection for the sector, for the period 2017–2021, indicates a clear rise in the production of new homes in the social housing sector. As a result, there is expected to be a growing demand for credit in the coming years. The amended Housing Act helps to sharpen housing associations' focus on their core task (social rented homes). An increasing proportion of investment relates to this segment of the housing market. For the time being, the demand for credit is very limited with activities for which there is no guarantee from the Social Housing Guarantee Fund (Waarborgfonds Sociale Woningbouw, WSW).

Investment is concentrated on new developments and existing properties. As investment in existing properties increases, this category more frequently involves investment in sustainability. In addition to balance sheet financing with a guarantee under the Social Housing Guarantee Fund, BNG Bank financed various projects in 2017 specifically aimed at increasing sustainability in this manner.

INSUFFICIENT MID-PRICED RENTED HOMES

Housing associations are restricted in their ability to allocate homes to middle-income households. This situation results in an ever-greater demand for mid-priced rented homes. An adequate supply of properties in this segment is therefore important to ensure a properly functioning social rented sector. The amended Housing Act restricts the scope for housing associations to provide for this segment of the housing market. Market parties, such as institutional or other investors, appear to meet only part of this need. BNG Bank consulted with several stakeholders in 2017 with a view to helping them increase the supply of mid-priced rented homes. The same applies to assisted living homes and housing for older citizens.

In recent years, the housing association sector has made great efforts to bring its activities in line with the amended Housing Act. The new coalition agreement does not propose any new changes that affect the system. It is positive that no new fundamental discussion is being held on the task of housing associations and the context in which that task must be executed. Now it is largely up to the sector to meet the societal expectations in the new context that has arisen. At the sector level, there is plenty of available scope for investment to make the necessary additional investments in that regard. Among other things, this fact is apparent from the indicative spending limit for each housing association presented by the then Minister for Housing and the Central Government Sector. Problems may exist with regard to the availability of sufficient locations as well as development and construction capacity, however. As a consequence, it is essential that municipalities and housing associations enter into good agreements at the local level.

HEALTHCARE SECTOR

The healthcare sector stabilised in 2017, with the government's focus being primarily to improve the functioning of the healthcare system. This approach provides care providers with more opportunity of adjusting to the new reality.

The third quarter saw the release of several publications⁶ on the development of the financial position of care providers based on the analysis of the 2016 annual reports. These reports include sector averages for a number of financial ratios (solvency, liquidity, return). Due to uncertainties and differences in the definitions used and the data examined, these figures can only be compared in broad outline with each other and with the internal figures of the bank's client portfolio. Generally speaking, the development of the return gives cause for concern. Solvency development is generally positive, while liquidity is also at a sufficient level on average.

The financial position of healthcare institutions is mainly determined by specific individual circumstances and can hardly if at all be attributed to generic circumstances within the healthcare sector concerned. Care providers in the various healthcare sectors are each navigating the transition to the new system differently. Broadly speaking, the mental healthcare sector is doing relatively poorly, while the opposite is true for the providers of disabled care. However, it must be emphasised immediately that the assessment of the financial position cannot only be based on historical annual figures.

Among other non-recurring items and events that put pressure on the return are the collective bargaining agreements in the long-term care sector and proceeds from the sale of real estate. The lower returns contribute to the relatively low level of investment activity. A further factor that plays a role here is the tendency towards smaller-scale new buildings. In the hospital care sector specifically, this trend is also attributable to the decentralisation of healthcare from secondary to primary and immediate health centres. Specialisation also plays a role, with hospitals increasingly focusing on activities in which they can differentiate themselves.

The long-term care sector is embracing a more and more demand-driven service model, where many people are provided with a growing range of options. Gone are the days of large-scale standard provision of services. Nevertheless, society still faces the daunting challenge to provide suitable homes for the large group of older people who will no longer be able to continue living in their own homes within a few years despite wishing to stay there for as long as possible. There could be a serious shortage of housing for this group which, in view of their income, is frequently reliant on affordable social rented homes.

LAWS AND REGULATIONS

The Capital Requirements Directive IV (CRD IV) was phased in further during 2017. The regulations, also known as the Third Basel Accord, are therefore on schedule to be fully implemented in the EU by 2019. In 2017, the European Banking Authority (EBA) continued to work on elaboration of the provisions in CRD IV.

⁶ Publications appearing in 2017 by EY, Intrakoop, BDO, the Netherlands Association of Hospitals (NVZ), NZa, ActiZ in collaboration with Deloitte, VGN and GGZ Nederland, among others.

The next generation of regulations, known as Basel 3.5, is being prepared in the meantime. New regulations on the capital requirement for credit risk and market risk, among other things, are taking clearer shape. BNG Bank follows the developments, assesses the impact and gives feedback on the regulatory consultations.

Directive 2014/65/EU ('MiFID II') entered into force on 3 January 2018. MiFID II revises the EU Markets in Financial Instruments Directive (MiFID), which was introduced in 2007, and the introduction of the EU Markets in Financial Instruments Regulation (MiFIR). MiFID II aims to make the European financial markets more efficient and transparent as well as to improve protection for investors. As MiFID II affects BNG Bank's current business activities, the bank has adjusted these business activities in line with the new regulations. BNG Bank also adjusted its banking licence in the same manner.

With effect from the 2018 reporting year, the bank will report in accordance with the IFRS 9 guidelines. The impact of this situation for the bank's figures is discussed in further detail within the Outlook for 2018 and the notes to the financial statements.

ECB supervision of the correct introduction and application of laws and regulations by banks remains intensive. In contacts with the Joint Supervisory Team, BNG Bank aims for a more predictable and plannable scheduling of supervision, in view of the considerable strain that related activities place on the bank. BNG Bank calls for a proportional application of supervision to avoid losing the benefits of its limited scale due to the harmonised approach to supervision.

In the previous annual report, it was noted that the Single Resolution Board was expected to produce an initial version of a resolution plan for BNG Bank, a so-called transitional resolution plan, in 2017. This plan is not yet available, however.

Affordable

€ rent for
social housing

CHANTAL PUTKER OF BNG BANK LOOKING OUT
OVER THE CAMPUS

Little Manhattan, Campus, Amsterdam

Student accommodation provider DUWO and International Campus (IC) have built a large student complex right next to Lelylaan station in Amsterdam, delivering it before the start of the new academic year.

DUWO lets and manages the student accommodation at the 'Little Manhattan' campus. In total, 869 self-contained residential units were built, of which 590 are student rooms and 279 studio flats for young professionals, i.e. recent graduates at the beginning of their careers.

NUMEROUS FACILITIES

The rooms are located in a horseshoe-shaped main building with two residential towers, 19 and 23 storeys high. There are also several communal facilities on the campus, including laundry rooms, bicycle storage areas and various business spaces. The floor surface of the 590 student rooms ranges between 22 and 37 square metres and the basic rent is between EUR 390 and EUR 450. All the units have their own entrance, kitchen, bathroom and bed-sitting room.

Relationship with stakeholders

The economic and social climate is experiencing significant change, which also applies to the bank’s business contacts and relationships. This trend is caused among other things by changing political goals, developments in the public debate, new technological developments, and changes in laws and regulations. As a result, active dialogue between bank and stakeholders is essential to enable the bank to execute its mission and its core values successfully. The mutual expectations which emerge from regular contacts between the stakeholders and the bank are translated into the perspective analysis which is included in our sustainability policy.

Based on this perspective analysis and the social developments, an online survey was held among shareholders, clients, investors and employees of BNG Bank. Shareholders, clients and investors were asked to indicate the importance that they attributed to several topics, while BNG Bank’s employees were asked to indicate their relevance for the bank. The topics which this survey highlighted as being material were then presented, together with the aforementioned perspective analysis, in a stakeholder meeting to which representatives of municipalities, housing associations and healthcare institutions were invited.

During the meeting, the participants indicated in the first place that they recognised the elements from the perspective analysis. It was apparent that BNG Bank’s initiatives in the area of sustainability are still relatively unknown. The participants suggested that the bank can also play a role in bringing parties together and providing relevant expertise to accelerate the creation of sustainable projects. At the participants’ suggestion, the element ‘partnership’ was therefore added to the perspective analysis of clients. The participants recognised the material topics presented which were highlighted by the survey. These topics were then established as material by the bank; see the figure on the next page for the topics.

Participants suggested that BNG Bank
could also play a part in **bringing
parties together** and providing the
relevant expertise to accelerate the
launching of sustainable projects.



- A SAFE BANK

RESPONSIBLE GROWTH

SOCIAL ENGAGEMENT

ENGAGED EMPLOYEES

SUSTAINABLE BUSINESS OPERATIONS

1. Good value for money for services

2. Sustainable products for clients

3. Financing of sustainable investments

4. Service innovations

5. Quality of information by BNG Bank

6. Customer service/complaints/quality of services

7. Integrity

8. Optimum return/security

9. Responsible remuneration policy

10. Controlled operations

11. Compliance with laws and regulations

12. Honest competition

13. Predictability

14. Liquidity

15. Sustainable investment possibilities for financiers

16. Attractive work for employees

17. Pleasant working conditions for employees

18. Competitive terms of employment for employees

19. Development opportunities for employees

20. Sustainable suppliers/responsible procurement

21. Digitisation of services

22. Energy transition, including greening of car use, natural gas-free neighbourhoods and cities, impact on the climate, and so on

23. Cyber security and crime

24. Privacy of client details held at BNG Bank

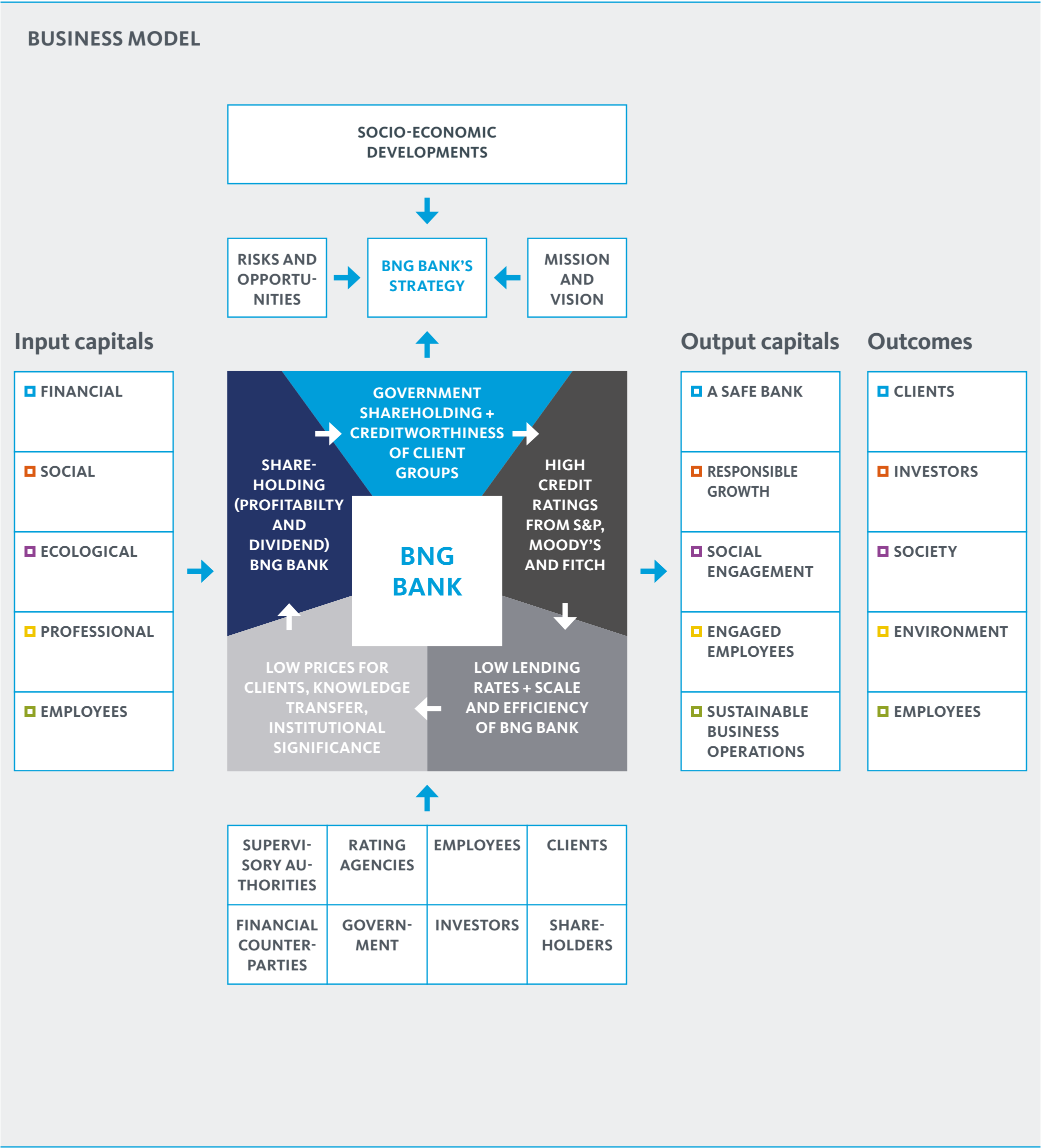
25. Restoring confidence in the financial sector

The topics were classified according to the five sustainability themes distinguished by the bank: a safe bank, responsible growth, social engagement, committed employees and environmentally conscious operations. The topics are discussed in this report.

Alongside the results set out above with regard to the materiality analysis, the participants held a wide-ranging round table discussion on current sustainability issues. The Telos method used by BNG Bank to determine the sustainability performance of municipalities and housing associations was explained. Also explained were the possibilities of the Public Real Estate Scan, a tool which identifies the viability and costs of improving the sustainability of buildings. The need for bringing partners together was also clearly expressed by the participants during the round table discussion.

VALUE CREATION

The value creation model presented on the next page shows how the bank uses the available resources (input) to create value for stakeholders. These resources result in concrete achievements (output) in terms of the five sustainability themes distinguished by the bank. The material topics highlighted by the survey and the stakeholder dialogue have been placed under one of these themes. In the ‘Outcome’ column, the impact of these achievements is shown. The achievements are discussed further in the report.



BUSINESS MODEL

Input capitals

■ FINANCIAL

– Use of equity and borrowed capital

Output capitals

■ A SAFE BANK

– Substantial market share of 71%

– Return on equity of 10.8%

– Solvency ratios of 37%; 3.5%

– Dividend per share of EUR 2.53

– Client satisfaction: 8.1

– Number of incidents: 1

– Number of complaints related to privacy, governance and integrity: 0

– Costs: EUR 72 million (+9%)

Outcomes

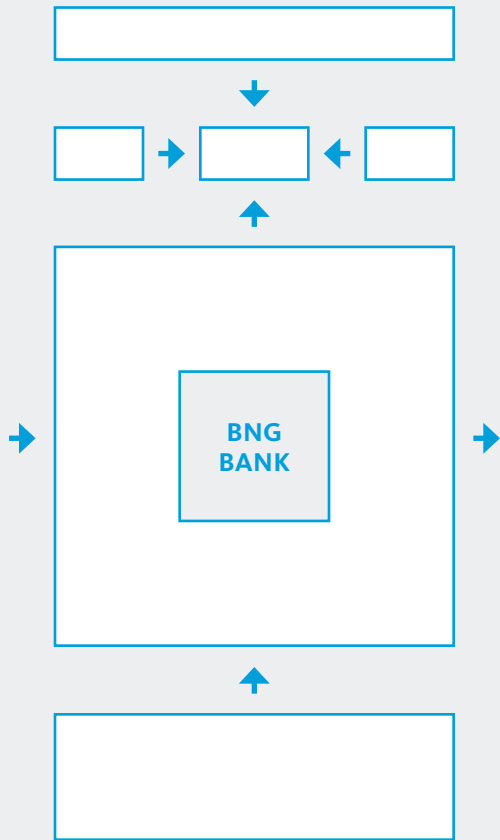
■ CLIENTS

– Partnership and realisation of sustainability ambitions

– Funding always available

– Lower costs

– The bank helps to raise awareness among its clients about the implications of laws and regulations through consultations with the relevant bodies

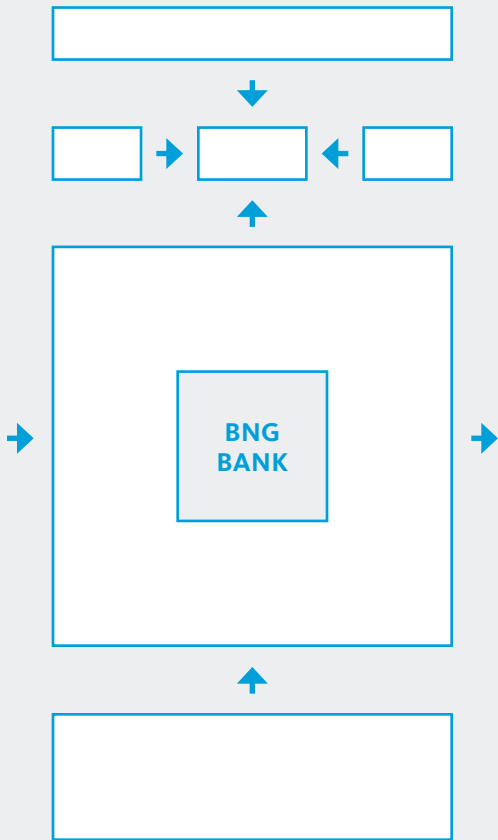


BUSINESS MODEL

Input capitals

■ SOCIAL

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



Output capitals

■ RESPONSIBLE GROWTH

- Balance sheet total of EUR 140 billion (-14 billion)
- Long-term loan portfolio of EUR 80 billion (-1 billion)
- Lending volume of EUR 9.5 billion (-0.7 billion)
- Share in financing for social rented housing in the portfolio of 49%
- Share in financing for local authorities in the portfolio of 37%
- Promoting sustainability by issuing SRI bonds for EUR 1.4 billion
- Environmental impact financing: see page 41
- Product innovation: Export Credit Guarantee Scheme (Exportkredietgarantieregeling, EKG), Energy Transition Financing Facility (ETFF), Sustainability Fund
- Financing volume of sustainable projects: see page 41

Outcomes

■ INVESTORS

- Attractive opportunities for safe, sustainable investments
- BNG Bank’s status as a promotional bank makes its securities an attractive alternative for government securities
- Good liquidity

BUSINESS MODEL

Input capitals

■ ECOLOGICAL

– Responsible sustainable procurement

Output capitals

■ SOCIAL ENGAGEMENT

– Cultuurfonds activities:
see page 46

– Volunteering activities:
see page 47

Outcomes

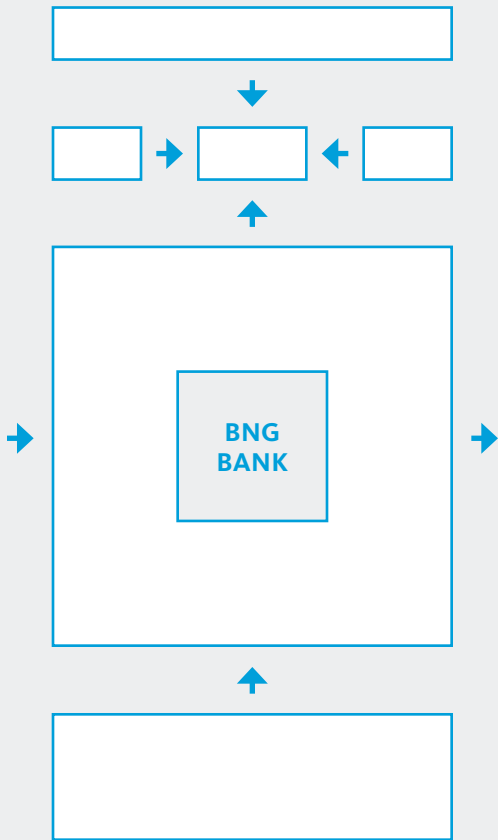
■ SOCIETY

– Lower costs of social provisions for citizens

– Contribution to building public trust in banks

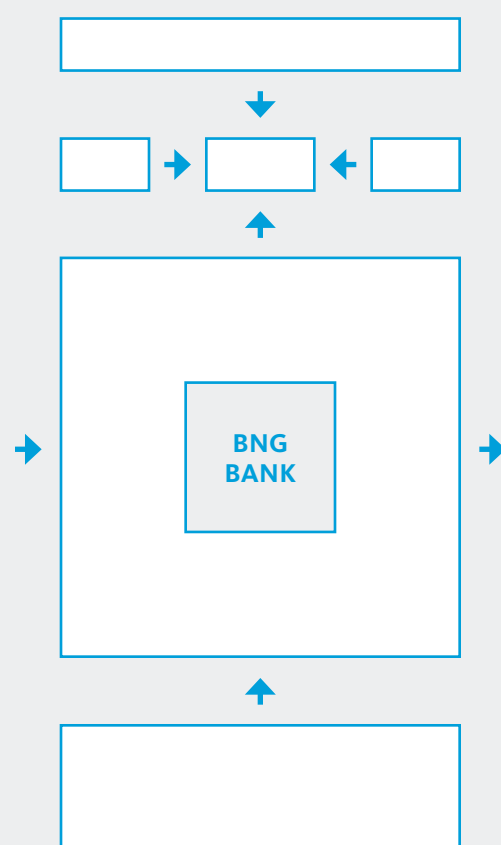
– BNG Bank creates value for society by increasing the level of knowledge among its clients

– Improved financial stability and quality of the public sector



Input capitals

- Expertise at our clients' service
- Innovative products and conceptual frameworks for financial issues



Output capitals

- Employee training: see page 52
- Individual coaching programmes: see page 52-54
- Internal advancement: 51
- Employee satisfaction rated at 8 (2017)
- Women in management roles: 27%
- New policy on terms and conditions of employment: see page 52
- Sickness absence rate: 3.0%
- Information sessions: 8
- Embedding of sustainability policy in HR policy: see page 56
- Use of personal budget: see page 52

Outcomes

- CO₂ emissions reduced

BUSINESS MODEL

Input capitals

EMPLOYEES

- A cooperation-oriented and open culture
- Competitive terms and conditions of employment
- Focus on health
- Training and development
- Multidisciplinary and flexible employees

Output capitals

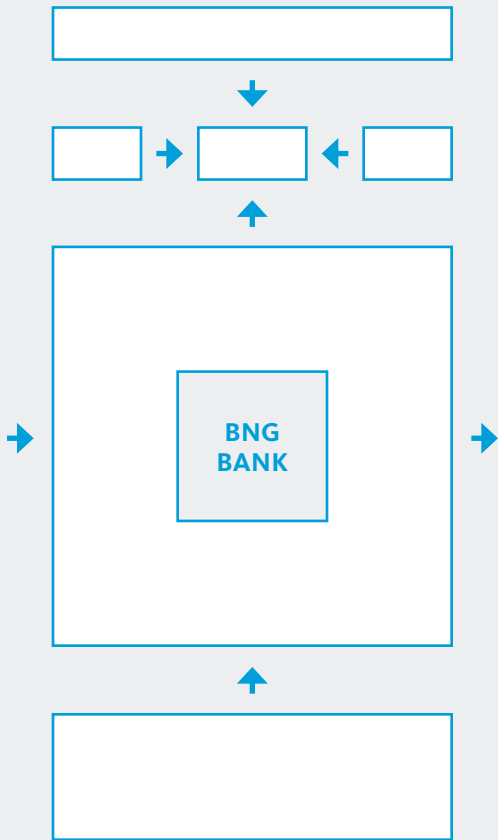
SUSTAINABLE BUSINESS OPERATIONS

- CO₂ emissions: 515 tonnes
- Energy consumption reduced: see page 56

Outcomes

INVESTORS

- Employees are enabled to demonstrate their potential
- BNG Bank has sustainably employable and mobile employees
- Job satisfaction and well-being of our staff



STRATEGY

PARAMETERS

The bank's mission constitutes the core of BNG Bank's sustainable business practices. By achieving its strategic objectives – substantial market shares in the Dutch public sector and the semi-public domain while generating a reasonable return for shareholders – the bank safeguards the continuity of its efforts to fulfil its mission. Achieving these strategic objectives requires an excellent credit rating, adequate risk management, and effective and efficient operations. The highest ratings awarded by Moody's and S&P serve to endorse the bank's strong financial position, solid risk management, and reliable and ethical business practice.

BNG Bank pursues a strict capitalisation policy. This policy sets the parameters for the bank's operating range. With regard to the leverage ratio, the bank's target is a certain margin over and above the minimum requirement that it will have to meet. The internal lower limit for the Tier 1 ratio (18%) is already well above the required value. Lastly, BNG Bank limits its sphere of activity as laid down in its Articles of Association. The bank's excellent creditworthiness and its close ties with the Dutch public sector enable it to raise funds worldwide at attractive lending rates.

ELABORATION

The bank aims to meet more than half of total long-term credit demand from its core client groups, and to do so in a viable manner. It does so by providing financing at low rates, usually with extended maturity periods. This strategy lowers the cost of public facilities. Market share is an indicator of BNG Bank's success in achieving the objective. The bank wants to help its clients achieve their objectives for a future-proof society by providing them with information and guidance on creating a sustainable investment profile, while offering tailored and reliable financing arrangements. A key element is helping to realise the ambitions set out in the Energy Agreement, which include making public real estate more sustainable and generating sustainable, renewable energy. The specific impact of this aim cannot be precisely measured on account of the multiplicity of the financial positions and the autonomous policies pursued by the wide range of institutions.

A reasonable return for shareholders equally means that BNG Bank must execute its mission efficiently. The bank defines 'reasonable' as the average return on ten-year government loans, increased by a spread of two percentage points. A concrete percentage is included as an objective under the theme 'A safe bank'. This return accrues to the public authorities (and by extension to ordinary citizens); they are BNG Bank's sole shareholders.

BNG Bank demonstrates its social engagement in different ways. The bank is mindful of relevant developments among its clients and publishes on these matters. It considers this element crucial to accomplishing its mission. The bank offers its opinion in relevant consultation forums with policy developers and interest groups. It also highlights its viewpoints among the respective members of government and ministries.

Through the BNG Bank Cultuurfonds, BNG Bank encourages artistic and cultural activities that are important to municipalities. It additionally helps to raise young people's awareness of money matters by providing information at schools via the NVB project 'Bank in de Klas' ('Bank in the Classroom').

Our employees form the foundations of effective and efficient business practices. BNG Bank operates in a complex and dynamic environment. The need for committed employees with specialist knowledge has grown considerably in recent years. To retain good staff, the bank places a strong emphasis on increasing relevant knowledge and expertise.

BNG Bank promotes a culture which highlights the central importance of cooperation (in the interest of clients), and in which employees hold each other accountable, provide mutual feedback and can take responsibility for their work.

Sustainable business practices form a key starting point for BNG Bank's own activities. Where possible, the bank implements improvements with this regard in its operations by minimising its own energy consumption and offsetting the remaining CO₂ emissions in the Netherlands.

SWOT ANALYSIS

Combined analysis of the bank's business model and the developments in its external environment has allowed the bank's strengths, weaknesses, opportunities and threats to be identified: see the SWOT analysis on the next page.

Dilemma: financing the energy transition

BNG Bank acts as a banker on behalf of the public authorities. 'Contributing to the energy transition considered necessary by the government' is one of the key objectives of BNG Bank's sustainability policy.

Thanks to technological developments, an increasing number of new projects – including private projects – are now feasible without any direct financial involvement on the part of the government. This situation poses a dilemma for the bank.

Should it prioritise facilitating government policy and use that starting point to advance the financing of the transition, thereby accepting a slightly greater credit risk?

Or should it stop financing those projects which no longer have any government involvement? This option has the potential to undermine the bank's ambitions to be a key player when it comes to financing sustainable investments.



EXPECTATIONS

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

Social contribution

A SAFE BANK

For BNG Bank, being a safe bank means stability based on three pillars. The first pillar is the client. BNG Bank needs a stable client base to guarantee that it can continue to provide its services. While BNG Bank's Articles of Association stipulate that it may only serve a limited group of clients on the one hand, it needs a substantial turnover to keep product costs low on the other. To this end, BNG Bank measures client satisfaction and client loyalty every two years, addressing any improvements that need to be made. BNG Bank also actively participates in various discussions within the sectors in which its clients operate with the aim of enabling the bank's contribution to resolving present or future challenges that are relevant for its clients.

The second pillar is the financial system. Here, stability is aided among other things by maintaining sufficient capital buffers, achieving a reasonable return on equity and providing products with a good price-quality ratio. Clients can trust the bank to act transparently and with integrity. BNG Bank features prominently in the transparency benchmark, a survey carried out on behalf of the Ministry of Economic Affairs and Climate Policy into the content and quality of social reporting by Dutch businesses.

The third pillar is formed by stable internal operations through effective risk management. This aspect naturally includes complying with laws and regulations as well as safeguarding clients' privacy. In addition, the bank's information systems are configured to be secure from multiple types of threat.

Through the above, BNG Bank aims to help restore confidence in the financial sector. BNG Bank is ranked among [the world's five safest banks](#).

TARGETS AND ACHIEVEMENT

SUBSTANTIAL MARKET SHARE IN SOLVENCY-FREE LENDING TO CORE CLIENTS		
Result 2016	76%	
Target 2017	> 55%	
Result 2017	71%	
Target 2018 and beyond	> 55%	
REASONABLE RETURN ON EQUITY		
Result 2016	11.5%	
Target 2017	≥ 5%	
Result 2017	10.8%	
Target 2018 and beyond	≥ return criterion set by Ministry of Finance (2018: 4.1%)	
CUSTOMER SATISFACTION		
Result 2016	Client portal project proposal approved, main outlines defined	
Target 2017	Roll-out of initial functionalities	
Result 2017	Not achieved, Project Plan adopted	
Target 2018 and beyond	Roll-out of initial functionalities	
CUSTOMER SATISFACTION		
Result 2016	–	
Target 2017	Customer satisfaction survey: score ≥ 7.5	
Result 2017	Achieved, score 8.1	
Target 2018 and beyond	Follow-up of recommendations	

ANNUAL REPORT	
Result 2016	Report in accordance with IIRC format; GRI 4 Comprehensive
Target 2017	Report in accordance with GRI 4, Comprehensive
Result 2017	Report in accordance with GRI standards, Comprehensive
Target 2018 and beyond	Financial data in accordance with IFRS 9
Target 2017	Stakeholder survey as part of materiality assessment
Result 2017	Survey conducted and stakeholder meeting organised

RESULT AND RETURN

BNG Bank posted a net profit of EUR 393 million for the 2017 reporting year. This result is EUR 24 million more than the net profit in 2016. The net profit for 2017 was positively influenced by a higher than expected interest result and positive unrealised market value changes.

At EUR 435 million, the 2017 interest result was higher than previously forecast. The increase of EUR 30 million relative to the comparative financial year is largely due to the especially attractive rates available to the bank for short-term funding transactions in US dollars, caused by the consistently high demand for this currency from outside the US. The margin of the long-term credit business rose cautiously, largely due to new long-term funding raised at an average weighted spread under the swap rate. The low interest rate in an absolute sense and the restrained interest rate position, given the expectation of a rising interest rate in the near future, are still putting pressure on the interest result.

The result on financial transactions was EUR 181 million positive in 2017 (2016: EUR 118 million positive). At EUR 129 million, the unrealised market value changes strongly contributed to this result, influenced by the slight rise in long-term interest rates over 2017 as well as the lower credit and liquidity risk spreads of most of the interest-bearing securities. Largely as a result of the ECB’s continuing buying programme, the realised results within the result on financial transactions were also highly positive. In most cases, optimisation of the bank’s liquidity portfolio, in terms of risk and terms to maturity, enabled a relatively large positive result to be achieved.

The standard operating expenses amounted to EUR 72 million in 2017, in line with forecasts. The increase of EUR 6 million compared to 2016 is due to the necessary costs incurred by the bank in order to guarantee continuing compliance with the rapidly changing laws and regulations, as well as the accompanying detailed reporting requirements. The expenses for external regulation, information technology and personnel grew in particular.

BNG Bank’s contribution to the European resolution fund in 2017 amounted to more than EUR 9 million. This contribution was lower than the preceding year as a result of an adjustment of the way in which promotional loans are included in the calculation. The statutory bank levy payable by the bank in 2017 was more than EUR 36 million (2015: EUR 35 million).

As a result of a relatively large ‘reversal of impairments’ in respect of two participating interests of BNG Gebiedsontwikkeling, BNG Bank recognised on balance a positive result of EUR 6 million under the Impairments item in 2017. Sales in these participating interests improved to the extent that previous impairments could be partially reversed. Because of the positive economic development in the Netherlands, the change in the provision for bad debts in 2017 yielded on balance a positive result of EUR 4 million.

Relative to year-end 2016, BNG Bank’s balance sheet total decreased by EUR 14.0 billion to EUR 140.0 billion. This decrease was primarily due to the rise in long-term interest rates and the fall of the dollar against the euro. The effects of the stronger euro are mainly reflected in the decrease of the Derivatives stated assets and Debt securities items. The fall in the long-term interest rate largely explains the decrease of the Value adjustments on loans in portfolio hedging and Derivatives (assets and liabilities) items. The decrease of the Cash and balances held with central banks and Funds entrusted items is mainly attributable to active balance sheet management.

The Loans and advances item fell by EUR 1.6 billion to EUR 86.0 billion in the reporting period, primarily on account of the continuing relatively low demand for credit despite the attractive interest rates for investments. In addition, the volume of prepayments was relatively large. The share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions amounted to approximately 71% in 2017. As a result, the target of 55% was amply achieved. The target that at least 90% of long-term loans in the balance sheet must qualify as promotional loans has also been met. The figure at the end of 2017 was more than 93%.

In the reporting year, BNG Bank’s equity grew by EUR 0.5 billion to almost EUR 5.0 billion. This increase is attributable to the 2017 net profit and the rise in the cash flow hedge reserve due to the decrease of the fee payable on contracting derivatives whereby euros are exchanged for US dollars. BNG Bank’s risk-weighted solvency ratio increased further in 2017 as well. 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 general reserve and the fact that the revaluation reserve in 2017 makes up 80% of the qualifying capital (2016: 60%). The bank’s leverage ratio increased relative to year-end 2016 by 0.5% to 3.5%. If the revaluation reserve and the retained profit for the reporting period are included in full, the leverage ratio is 3.7%. The bank had set itself the goal of achieving a leverage ratio at year-end 2017, in line with this calculation method, of at least 3.4%.

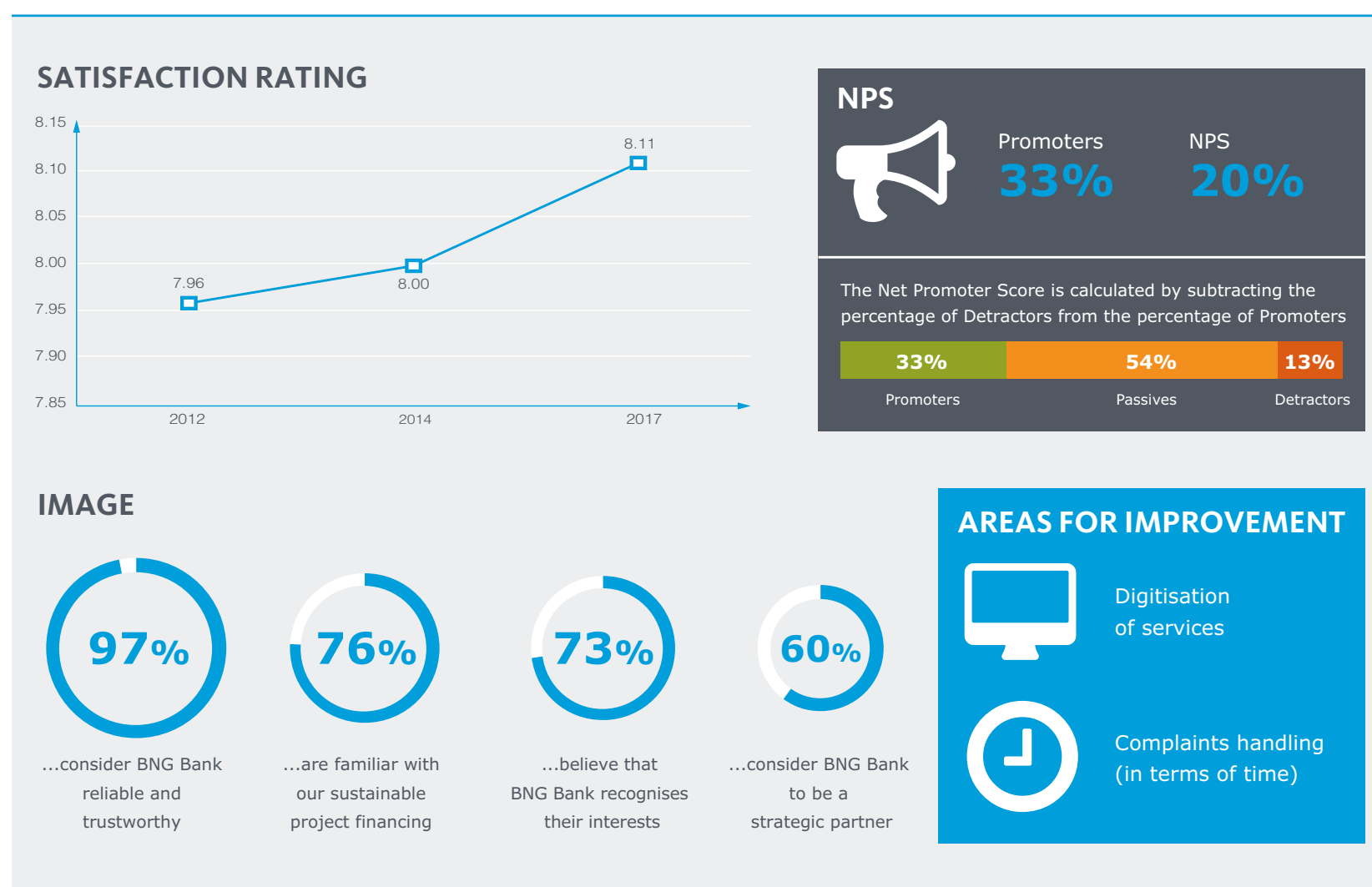
The return on equity⁸ of 10.8% is significantly higher than the internal target of 5%. After deduction of the dividend distribution to providers of hybrid capital, an amount of EUR 375 million (2016: EUR 365 million) is available to shareholders.

The positive development of the level of the leverage ratio prompted BNG Bank to propose a higher payout percentage. The present and expected development of the bank’s capitalisation makes this possible. Despite the one-off negative impact of IFRS 9 on the amount of the equity

⁸ The return on equity (ROE) is calculated by dividing the net profit minus the distributed dividend on hybrid capital by the aggregate of the equity minus the hybrid capital, the revaluation reserve and the cash flow hedge reserve at the start of the financial year.

and the fact that the European Union has deferred the decision on the final details of the regulations on the leverage ratio, the bank expects that the capitalisation will remain sufficient to meet the capital requirements in the near future as well. It is expected that certainty about the relevant regulations will be obtained in the course of 2018. BNG Bank will then implement a new version of its capitalisation and dividend policy. In advance of new regulations, the bank proposes distributing 37.5% (2016: 25%) of this amount. This represents a dividend of EUR 141 million (2016: EUR 91 million). The remainder will be added to the reserves. The dividend amounts to EUR 2.53 (2016: EUR 1.64) per share with a nominal value of EUR 2.50.

CUSTOMER SATISFACTION



The results of the 2017 customer satisfaction survey show that clients are satisfied (score: 8.1) as well as very loyal. One in three clients say that they are 'highly likely' to recommend BNG Bank to business contacts.

What sets BNG Bank apart in particular are the specific know-how of the account managers, the accessibility of information via the website and the telephone customer service employees. Insourcing of the Customer Service department from 1 January 2016 has contributed to this result, as complaints and requests for information can now be handled with greater efficiency.

Clients refer to BNG Bank as very reliable. As improvements, the respondents suggested the further development of digital services, a faster complaints procedure and the further development of strategic partnerships. The latter aspect was also highlighted in the stakeholder dialogue.

In the meantime, the complaints procedure has been updated. This development should lead to faster handling and more detailed registration of complaints, making them more readily usable for analysis and for the implementation of structural improvements to services.

DIGITAL SERVICES

Several different services are already provided digitally to clients, including payment transactions, liquidity management, document filing and sector-specific information provision. The bank aims to give clients themselves even greater control and insight into the relationship and communication with the bank, at all times with due regard to the constraints imposed by information security.

The further development of the 'My BNG Bank' digital client portal plays a pivotal role in these services. Its original target of rolling out the initial functionalities during the course of 2017 was not achieved, as the bank prioritised the digitisation of several internal processes in preparation for the introduction of the digital portal. The launch is now planned for 2018. An increasing number of services, including payment transactions, will be provided online in the digital portal.

ETHICAL CONDUCT

Ethical business practices are an important foundation of BNG Bank. Ethical standards of behaviour on the part of the bank, its Executive Board members and employees, as well as providing fair products and services, are a key element in this regard. BNG Bank applies internal policy rules and procedures to safeguard this foundation and ensure compliance with relevant laws and regulations. These include procedures for accepting new clients, monitoring existing clients and avoiding involvement in money laundering. In addition, the bank's internal rules and procedures provide for the monitoring of employees' private investment transactions, avoiding and where necessary transparently managing conflicting interests and shielding confidential information. Full attention is also given to maintaining and raising awareness of financial regulations, compliance procedures, and anti-fraud and corruption measures, for example. The bank monitors the implementation of and compliance with integrity-related laws and regulations and makes improvements where necessary. The bank also promotes awareness of changing social perceptions of ethical conduct. During the introductory meeting for new employees, attention is focused on the principles and importance of ethical conduct. In the reporting year, 25 employees attended these meetings, receiving and signing the bank's company code, through which they declare that they will abide by the bank's rules. In 2017, 19 internal and 28 external employees took the oath or affirmation for the financial sector. All employees have taken this oath or affirmation. In 2018, all employees will be required to undergo mandatory dilemma training, which will centre on culture and behaviour, and consequently how to deal with integrity dilemmas.

DUTY OF CARE

The duty of care, acting in the client's interests, has priority in the bank's services. Accordingly, BNG Bank aims to provide straightforward and transparent products that meet the needs of its clients. Products whose risks cannot easily be assessed by clients are not offered. Attention is given to providing clients with clear and concise information and warning them of the risks attached to certain products. Conflicts of interest are avoided as far as possible, or managed.

No significant compliance and integrity-related incidents occurred in 2017. BNG Bank was not involved in any legal proceedings or sanctions related to non-compliance with laws and regulations in the field of financial supervision, corruption, human rights, competition, the environment or product liability.

PRIVACY

BNG Bank is aware of the importance of compliance with the requirements relating to privacy. No significant incidents related to non-compliance with privacy laws and regulations occurred in 2017. BNG Bank reported one possible data leak to the Dutch Data Protection Authority in connection with the theft of a tablet. All relevant functionality was rendered inaccessible immediately after the loss of the tablet was reported.

BNG Bank began work to implement the EU privacy regulation in 2017. This General Data Protection Regulation (GDPR) strengthens and extends the privacy and data protection rights of data subjects. The GDPR will enter into force on 25 May 2018.

COMBATING MARKET ABUSE

BNG Bank has implemented the Market Abuse Regulation. This Regulation aims to boost confidence in the financial markets by embedding ethical conduct in various internal policy rules and procedures. Workshops were also held to inform employees about the new requirements imposed by the Regulation.

ADEQUATE RISK MANAGEMENT

BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its external credit ratings. To this end, the bank has a Risk Appetite Statement, setting out annually to what extent the bank is prepared to accept which risks in order to execute its mission and strategy. The stakeholder model is used to identify the interests and expectations of the different stakeholders in relation to the risk profile. These interests act as a basis for formulating ambitions with regard to the risk profile, with a balance being sought between potentially conflicting interests such as competitive rates for clients and a reasonable return for shareholders. The ambitions are formulated in terms of profitability, solvency, liquidity and reputation & brand. Predictability in the sense of solid profitability, capitalisation and liquidity plays an important role in these ambitions. These ambitions are elaborated in qualitative terms and then quantitatively. Subsequently, cascading takes place with regard to the risk tolerance limits for different risk types. This process results in limits, targets and reference figures which the bank uses in daily practice to manage its risk profile.

The bank remained within its risk appetite as laid down in the 2017 Risk Appetite Statement. In 2017, additional steps were taken to improve the translation of the risk appetite into the operational risk. This approach resulted in improved measurability of the Reputation & Brand component from the risk appetite in particular. A new overarching risk report was also developed, which meets the need of the Executive Board and Supervisory Board for a comprehensive overview of BNG Bank's risk profile. This risk report is prepared quarterly by Risk Management and will be further developed in 2018.

Further details on the manner in which BNG Bank manages the applicable risks and the developments in those risks are given in the Risk section in the 2017 Annual Accounts.

SYSTEM SECURITY

BNG Bank applies a strict security policy, internal rules and procedures to safeguard the security of its business practices and to ensure compliance with relevant laws and regulations. In addition to the existing procedural and technical security measures, employees are trained to keep their risk awareness acute.

Due attention is paid to reducing and managing the security risks arising from Internet-related threats. Employees’ awareness as well as technology play a role in this regard. The latter involves using external expertise, which is provided by our IT service provider among others. No security incidents incurred in the previous year which significantly harmed or affected the provision of services to clients, nor did any loss or damage occur as a result of instances of fraud.

RESPONSIBLE GROWTH

BNG Bank defines responsible growth as growth that contributes to achieving a sustainable society; among other things, by minimising the costs of social provisions for the inhabitants of this country. Partnering with clients is an important aspect of BNG Bank’s public role. BNG Bank stimulates the sustainability drive among clients and responds to the interest in sustainable investment options among investors by issuing SRI bonds. In addition, the bank facilitates the policy of the Dutch government by assisting in the provision of tailored financing to stimulate and enable the implementation of individual policy measures.

COMPOSITION OF LONG-TERM LOAN PORTFOLIO: SHARE OF PROMOTIONAL LOANS	
Achieved 2016:	94%
Target 2017 and beyond	At least 90% promotional loans
Achieved 2017	93%
Target 2018 and beyond	At least 90% promotional loans

KNOWLEDGE SHARING	
Target 2017 and beyond	Sustainable investing roadshow
Achieved 2017	Not achieved in this form; opportunities for sustainable investing standard element in presentations and client contacts

LENDING FOR SUSTAINABLE PROJECTS	
Achieved 2016	Increase in lending for solar panels and sustainable accommodation; funding SDE-related projects; funding sustainable initiatives of core clients
Target 2017 and beyond	Participation from Energy Transition Financing Facility (ETFF); funding of solar panels and wind energy
Achieved 2017	First concrete ETFF participations in assessment phase; funding SDE-related projects achieved; funding sustainable projects
Target 2018:	Further increase in funding sustainable projects

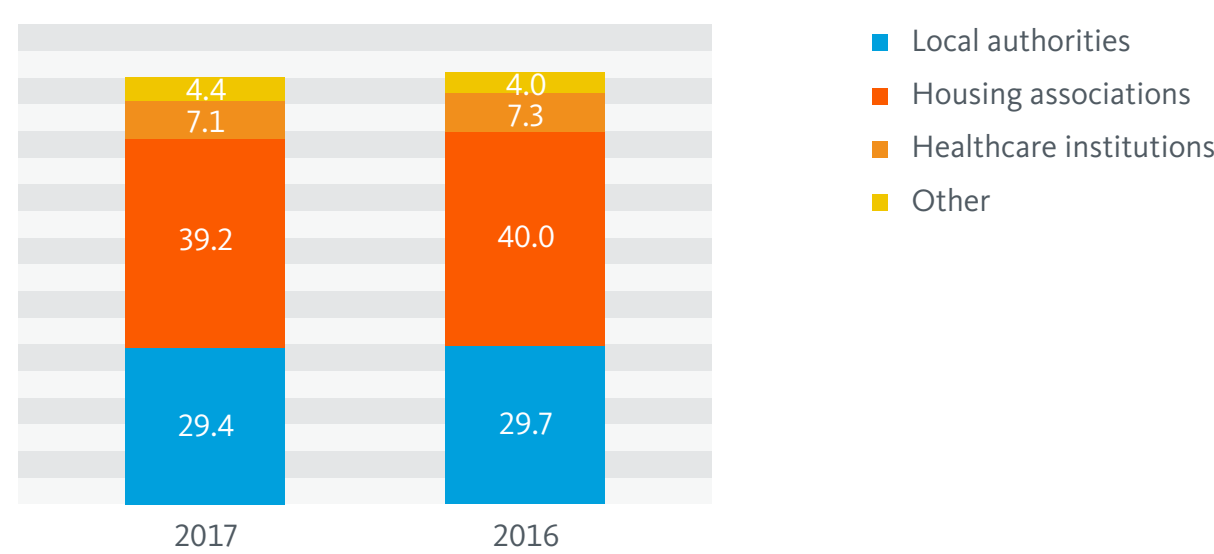
SRI BOND ISSUES	
Achieved 2016	One Social Housing Bond, EUR 1 billion; one SRI Bond, USD 600 million
Target 2017	At least two SRI Bonds (preferably one for municipalities and one for housing associations)
Achieved 2017	A Social Housing Bond and an SRI Bond
Target 2018	At least one SRI Bond and one Social Housing Bond
Target 2018	Evaluation of frameworks for assessing the sustainability performance of municipalities and housing associations for SRI Bonds

ADDED VALUE THROUGH FINANCING

BNG Bank creates impact by implementing its mission and vision, providing lending to public authorities at attractive rates. This directly benefits society in the form of lower costs for public facilities. The total amount of long-term lending in 2017 was EUR 9.5 billion, EUR 0.7 billion lower than in 2016. The decline was almost entirely located in the solvency-free segment: granted to or guaranteed by public authorities. At EUR 1.3 billion, the level of other lending remained largely unchanged. The total long-term loan portfolio amounted to EUR 80.1 billion at the end of 2017 (end of 2016: EUR 81.0 billion). By contrast, the average level of short-term lending was EUR 4.0 billion (2016: EUR 4.3 billion).

LONG-TERM LOAN PORTFOLIO

Amounts in billions of euros



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

BNG Bank believes that it has a role to play in tackling the above problems in support of government policy. In so far as these problems occur within its mandate and profile, BNG Bank is already fulfilling this role; for example, in relation to the energy transition. Problems falling outside the scope of its mandate require a structural approach, with the involvement of all relevant actors (government, banks, institutional investors). More effective use of existing guarantee and stimulus measures can enable much to be achieved already. Several tangible projects completed in this regard are discussed in greater detail in the ‘Sustainable lending’ section.

LOCAL AUTHORITIES



The reluctance of local authorities to invest translated into reduced turnover among these core clients in the reporting year. Loans in a total amount of EUR 2.9 billion were issued. The bank's market share remained very high. At the end of 2017, the bank's portfolio of loans to local authorities amounted to more than EUR 29 billion.

HOUSING ASSOCIATIONS



Measured by money, the housing association sector is BNG Bank's largest client group. The bank's societal impact can be illustrated in different ways. At the end of the reporting year, for example, BNG Bank had more than EUR 39 billion in outstanding loans to housing associations for the purpose of investment in the social rented sector. The interest benefit enjoyed by housing associations within the current financing and guarantee system, in which BNG Bank plays an important role, is 1.5% to 2%. This interest benefit represents a premium of EUR 30 to EUR 40 per month for tenants.

In 2017, BNG Bank provided approximately EUR 4.4 billion (2016: EUR 4.3 billion) in loans to housing associations. Increasing investment activity by housing associations is cautiously reflected in this figure.

The lending meant that the bank contributed to the construction of roughly 23,000 new housing association homes and to the major improvement of approximately 30,000 homes, including in terms of energy efficiency.

HEALTHCARE INSTITUTIONS



At the end of 2017, BNG Bank had EUR 7.3 billion in outstanding long-term loans to healthcare institutions. Of this sum, EUR 4.7 billion was guaranteed by the Healthcare Sector Guarantee Fund (WfZ). The WfZ issued suretyships in a total amount of EUR 7.9 billion at the end of 2017, thereby reducing the interest expenses for WfZ participants. In 2015, Deloitte carried out an evaluation study of the WfZ. The study found that the interest benefit equates to an annual amount of between EUR 90 million and EUR 180 million. This is based on the interest benefit in 2015, which the WfZ places at 1.5% to 2%.

In 2017, the bank provided EUR 0.8 billion in long-term loans to healthcare institutions. Of this sum, nearly EUR 0.4 billion was guaranteed by the WfZ. As a result of the guaranteed granting of credit by BNG Bank, these healthcare institutions achieved lower financing costs of between EUR 6 and EUR 12 million.

SUSTAINABLE LENDING



In the year under review, the bank made tangible contributions to financing the energy transition, export financing and funding for SMEs. The bank financed projects such as the 'Boer Kiest Zon' solar farming project comprising 140,000 solar panels on the roofs of agricultural buildings and the sustainable enhancement of a minimum of 8,500 rented Ymere housing association homes by an energy service company (ESCo). Funding in a total amount of EUR 297 million was provided for sustainable energy generation projects in 2017. This amount is in addition to the funding for sustainable investments by clients which are financed through the balance sheet. In 2017, nearly EUR 1.9 billion was granted to municipalities and corporations which are classed among the most sustainable in their category using the [Telos methodology](#) and which are eligible for financing under the SRI bond or the [Social Housing Bond](#). In July 2017, the European Commission granted its approval for the Energy Transition Financing Facility (ETFF) announced jointly by the bank, the then Ministry of Economic Affairs and the Netherlands Investment Agency at the end of 2016. The bank has initially earmarked EUR 100 million for subordinated loans under the ETFF.

The BNG Sustainability Fund was established at the end of the reporting year. This Fund aims to enable the realisation of smaller-scale business sustainability initiatives. It will mainly help to fund sustainable energy generation initiatives and investments in energy-saving measures, but it can also extend to broader sustainability initiatives in relation to the environment or other fields (socio-cultural, healthcare or education, for example). The Fund is intended for sustainability initiatives with a lending requirement of between EUR 100,000 and EUR 2,500,000. These initiatives must be in line with the municipal/provincial sustainability objectives and the loan must be used for investments in ‘proven’ technology. BNG Bank will initially provide EUR 10 million to the BNG Sustainability Fund and intends to allow the Fund to grow annually by EUR 5 million to EUR 25 million in the coming three years. The interest and repayments received will in turn be made available for new investments.

The BNG Sustainability Fund was set up to facilitate **smaller corporate sustainability initiatives.**

Other results include a first refinancing transaction of USD 200 million in support of the government’s export financing policy and the first agreement of EUR 25 million in support of the SME sector. These transactions enable the bank to implement its strategy of operating closer to its clients and making an active contribution to societal challenges, such as increasing sustainability in the Netherlands. The bank further tightened its sustainability policy after the end of the reporting year.

PUBLIC REAL ESTATE SCAN



BNG Bank offers municipalities a new instrument for improving the sustainability of real estate: the Public Real Estate Scan. This online tool gives municipalities a quick overview of the necessary measures and related costs for making real estate more sustainable.

Municipalities play an important role in the reduction of energy use in the built environment, one of the most challenging tasks of the Energy Agreement. This scan allows climate targets to be converted into concrete plans. Clients have already used the tool to examine the possibilities for improving the sustainability of approximately 1 million m² of public real estate as well as the related costs.

Public Real Estate Scan

The Public Real Estate Scan was introduced after a pilot version was tested by the municipality of Goes last summer. Alderman Loes Meeuwisse was enthusiastic: ‘Goes has 161 bricks-and-mortar properties and 92 other properties. The largest property is the municipal office with 300 workstations. We applied the Public Real Estate Scan to our long-term maintenance plan and notice that this tool helps us to establish priorities. While we thought that we were performing well, there are still several key measures that we can take to reduce CO₂ emissions in large sustainable properties substantially, for example.’

Stakeholders on the BNG Sustainability Fund

The BNG Sustainability Fund facilitates sustainability initiatives in the environmental field (such as sustainable energy generation and energy-saving measures) as well as in the socio-cultural field (healthcare, housing, education). This Fund supplements BNG Bank’s regular lending and is supported by the Association of Netherlands Municipalities (VNG). The Dutch Municipal Housing Incentive Fund (Stimuleringsfonds Volkshuisvesting Nederlandse gemeenten, SVn) is the fund manager.

Jan van Zanen, Chair of the VNG: ‘The BNG Sustainability Fund enables businesses and associations to achieve their sustainable ambitions and to make the necessary investments for doing so. That provision is good for local authorities, who have high ambitions but only limited influence and possibilities in this regard. Worth pointing out is that the responsibility for increasing sustainability at the local level largely lies with companies and associations themselves. It is great that there is now a facility for them to arrange the financing for their sustainable plans.’

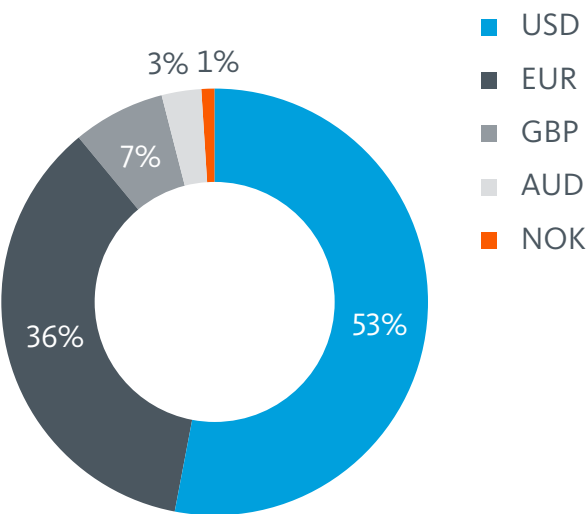
Stella Vos, director of SVn: ‘Businesses, private individuals and public authorities in the Netherlands are working together to create a more sustainable country. That development is absolutely essential if we are to achieve the climate targets. While businesses play an important role in enhancing sustainability, their plans sometimes fail to materialise due to problems in raising sufficient funds. That aspect is where the BNG Sustainability Fund can help.’

FUNDING

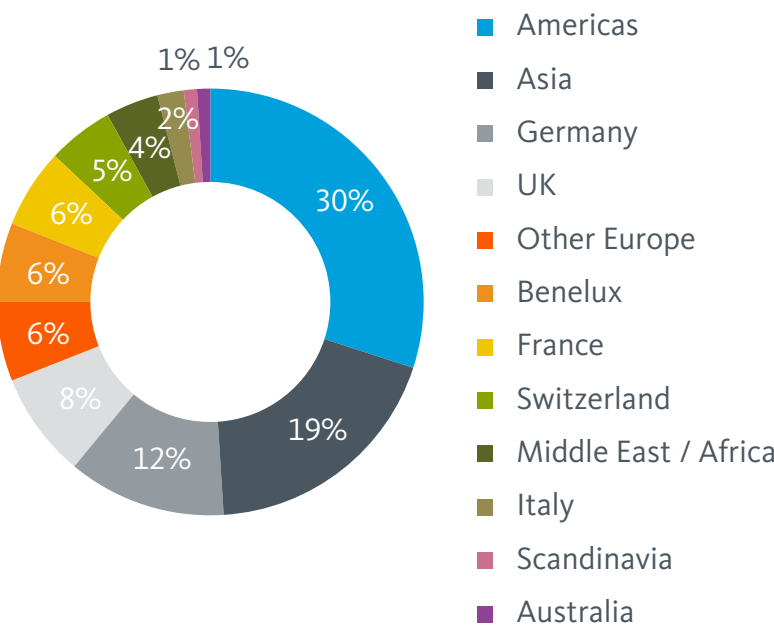


In 2017, the bank raised an amount of EUR 17.7 billion, EUR 17.1 billion of which derived from the international financial markets. A breakdown by currency and geographical spread is shown in the figures below.

FUNDING, BREAK DOWN BY CURRENCY



FUNDING, GEOGRAPHICAL SPREAD



In June 2017, the ICMA added Sustainable Bond Guidelines to the existing Green Bond Principles (GBP). Moreover, the Social Bond Guidelines were converted into Social Bond Principles. This change made it possible to include the broad sustainability definition ‘People, Society, Profit’ under assets as well as liabilities in the balance sheet.

At BNG Bank’s request, Telos, the institute for sustainable development of Tilburg University, developed a ‘best-in-class’ framework based on the Monitor of Sustainable Municipalities in 2014. The UN’s Sustainable Development Goals (SDG) were added to this framework in 2016. A similar framework has been developed for the housing association sector. The frameworks are published on the bank’s website.

Sustainalytics, a global leader in ESG and Corporate Governance research and ratings, found the framework to be ‘robust and innovative’. The criteria for the BNG Social Housing Bond, which was issued in November of the reporting year, are based on SDG 11: Sustainable cities and communities. The loan, which was well received in the market, is for USD 750 million and has a term of three years. The net proceeds of the bond were used to finance loans to the ‘best-in-class’ housing associations mentioned in the framework. BNG Bank publishes an impact assessment each year. In November, an SRI Bond for municipalities was also issued, for EUR 750 million and with a term of seven years, to provide financing to ‘best-in-class’ municipalities. With

the issue of both bonds, approximately 8% of the total financing requirement was hedged. Since 2014, BNG Bank has issued an amount of EUR 4.1 billion in loans which satisfy the Green Bond Principles (GBP).

The bank expects once again to issue at least an SRI Bond and a Social Housing Bond in the coming year. In addition, the ‘best-in-class framework’ referred to above will be evaluated and where necessary adjusted even further in line with the wishes of sustainable investors.

SOCIAL ENGAGEMENT

As a corollary to its commitment to responsible growth, BNG Bank seeks to achieve social impact by actively engaging with clients and interest groups with the aim of working together to find a solution to financing socially relevant activities. Several activities are explained in further detail below by way of illustration.

SUPPORT HIGH-QUALITY ART AND CULTURAL PROJECTS	
Achieved 2016	60 projects supported; cooperation with National Youth Orchestra continued
Target 2017 and beyond	Support for projects in various disciplines across the Netherlands; cooperation agreement with the National Youth Orchestra
Achieved 2017	60 projects realised; agreement with National Youth Orchestra continued
Target 2018	Continuation of project support and agreement with National Youth Orchestra; number of projects dependent on project quality and support requested in relation to the available budget

AWARDS IN THE MUSIC, VISUAL ARTS AND DANCE CATEGORIES	
Achieved 2016	Awards presented to young talent in the theatrical, literature, youth circus, dance and visual arts categories; visual arts award (in association with Dutch newspaper De Volkskrant); dance award (in association with Korzo Theater)
Target 2017	Maintain awards
Achieved 2017	Visual arts award not presented in connection with expiry of agreement with De Volkskrant; other awards presented as planned
Outlook for 2018	Maintain remaining awards

AWARDS FOR MUNICIPAL CULTURAL ACTIVITIES	
Achieved 2016	BNG Bank Heritage Award presented; in addition, creation of BNG Bank Long Live Art Award for the municipality with the best cultural and senior citizen participation policy
Target 2017	Maintain awards
Achieved 2017	BNG Bank Heritage Award presented; BNG Bank Long Live Art Award in principle biennial award
Target 2018	Present BNG Bank Heritage Award and BNG Bank Long Live Art Award

SOCIAL RETURN	
Target 2017	Examine possibilities for social return fund
Achieved 2017	Decision made to support several concrete projects instead of fund
Target 2018	Investigate possibilities for Social Return Platform in collaboration with VNG

SOCIAL IMPACT VIA DISCUSSIONS WITH STAKEHOLDERS

The bank actively aired its views in media, at conferences, in its own customer magazine B&G and during meetings with clients. During the year under review, the bank participated in more than 40 meetings with municipal executive members and/or local councillors of municipalities, sector organisations, ministries and other stakeholders. The bank also presented its ideas on resolving societal problems during various meetings in the country, including the VNG Annual Conference, the ‘Dag van de Stad’ (City Day) and the Impact Summit, which was supported by the central government. In addition, the bank aired its views via articles in various media, among other things. The bank positions the B&G digital magazine as a discussion forum for its stakeholders. Below are several topics which the bank addressed.

GLOBAL GOALS



The VNG and BNG Bank have joined forces in ‘Gemeenten4GlobalGoals’. This agreement includes a Challenge to municipalities which aims to inspire them in developing innovative ideas. BNG Bank and the VNG signed the agreement in front of 450 representatives from businesses, public authorities and political parties during the Impact Summit in the KIT Royal Tropical Institute in Amsterdam.

HEATING NETWORKS CRUCIAL FOR NATURAL GAS TRANSITION

The coalition agreement includes the ambition to make all homes sustainable by 2050. Natural gas-free new-build homes will be the norm. BNG Bank believes that district heating systems offer the most efficient alternative to natural gas within urban areas in particular. Swift and clear national legislation on district heating networks is needed to provide an impulse to the natural gas transition. This legislation can stipulate, for example, that district heating networks will be publicly or privately owned. That stipulation has an influence on the payback periods that will apply and the manner in which the security of supply is organised. The focus among private investors on shorter payback periods makes investing in heat infrastructures less attractive to them than to public shareholders, who observe a payback period of 30 or 40 years. Public shareholders also exist in other countries, such as Denmark and Sweden, as well as within other sectors in the Netherlands (electricity, gas and sewerage). Whatever choice is made, swift regulation is called for with 'long term', 'reliability' and 'security of supply' as the keywords.

ENERGY SPONSORSHIP

Softs, the Surface of Everything, focuses its efforts on locally organising free clean energy in the urban area combined with energy sponsorship. Strijp-S, a former industrial estate in Eindhoven, is one such location. Energy sponsorship projects enable public sector organisations to develop sustainable business operations and become energy neutral economically, freeing up funds that can be used to modernise their core tasks. Through presentations at congresses, articles and other targeted marketing activities, BNG Bank encourages stakeholders to make public real estate more sustainable via energy sponsorship projects.

ENHANCING SOCIAL SUSTAINABILITY



BNG Bank supports several concrete projects to enhance social sustainability. Where possible, the Softs referred to above are assembled by people with limited access to the regular labour market. The bank is additionally involved in two projects which support people with a low disposable income to manage their finances: the digital housekeeping book and the prepaid PIN card.

BNG BANK CULTUURFONDS



BNG Bank promotes art and cultural activities that are important to its clients and thereby to society. This is why BNG Cultuurfonds was set up more than 50 years ago. The bank contributes an amount each year to the BNG Cultuurfonds.

The BNG Cultuurfonds primarily awards project grants, aiming at an even distribution across the various art disciplines all over the Netherlands. Out of the several hundred grant applications received, roughly 60 art and cultural projects were selected for support by the BNG Cultuurfonds in 2017.

In addition, BNG Cultuurfonds stimulates young talent in a structured way by awarding prizes and supporting theatrical, literature, youth circus and dance projects. Talented young classical musicians are stimulated through a cooperation agreement with the National Youth Orchestra, which offers young musicians the opportunity to engage in new productions.

At EUR 45,000, the BNG Bank Award for New Theatre Makers is the largest theatre award in the country. The BNG Bank Excellent Talent Dance Award is presented in collaboration with Korzo, the dance production house. The BNG Bank Heritage Award encourages municipalities to pursue an effective heritage policy and to draw inspiration from each other in this area. The biennial BNG Bank Long Live Art Award, which was presented for the first time in 2016, is intended for the municipality with the best record of promoting senior citizen and cultural participation.

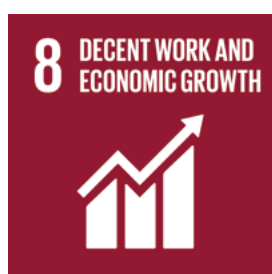
In 2017, the BNG Cultuurfonds hosted five cultural events for the bank's business contacts. These events are highly appreciated.

The many projects, often with a regional character, that are supported contribute to BNG Bank's role as a committed partner for a more sustainable Netherlands. The BNG Cultuurfonds intends to continue to support high-quality projects in 2018 also.

VOLUNTARY WORK

Employees also undertake social engagement initiatives themselves on behalf of the bank. Each year, several employees take part in the Banking for Students programme, which teaches children in higher primary school classes how to handle money responsibly. Furthermore, the bank's employees do voluntary work each year at a healthcare institution. Several employees participate in the 'Face the future' project, which seeks to help refugees with residence status in the Netherlands to integrate into Dutch society.

COMMITTED EMPLOYEES



Motivated employees are crucial for ensuring effective and efficient business operations, thereby serving the public interest. Sufficient employee training and development opportunities constitute the basis for a strong workforce. The bank endeavours to offer competitive terms of employment. The bank pursues an open culture and workforce diversity, including in management roles.

EMPLOYEE COMMITMENT	
Target 2018	Employee commitment survey

KNOWLEDGE TRANSFER TO EMPLOYEES	
Achieved 2016	Nine information sessions ('BNG Update sessions') organised on state of affairs, HR policy and remuneration policy
Target 2017 and beyond	Information on current topics via 'BNG Update sessions'
Achieved 2017	Eight information sessions held

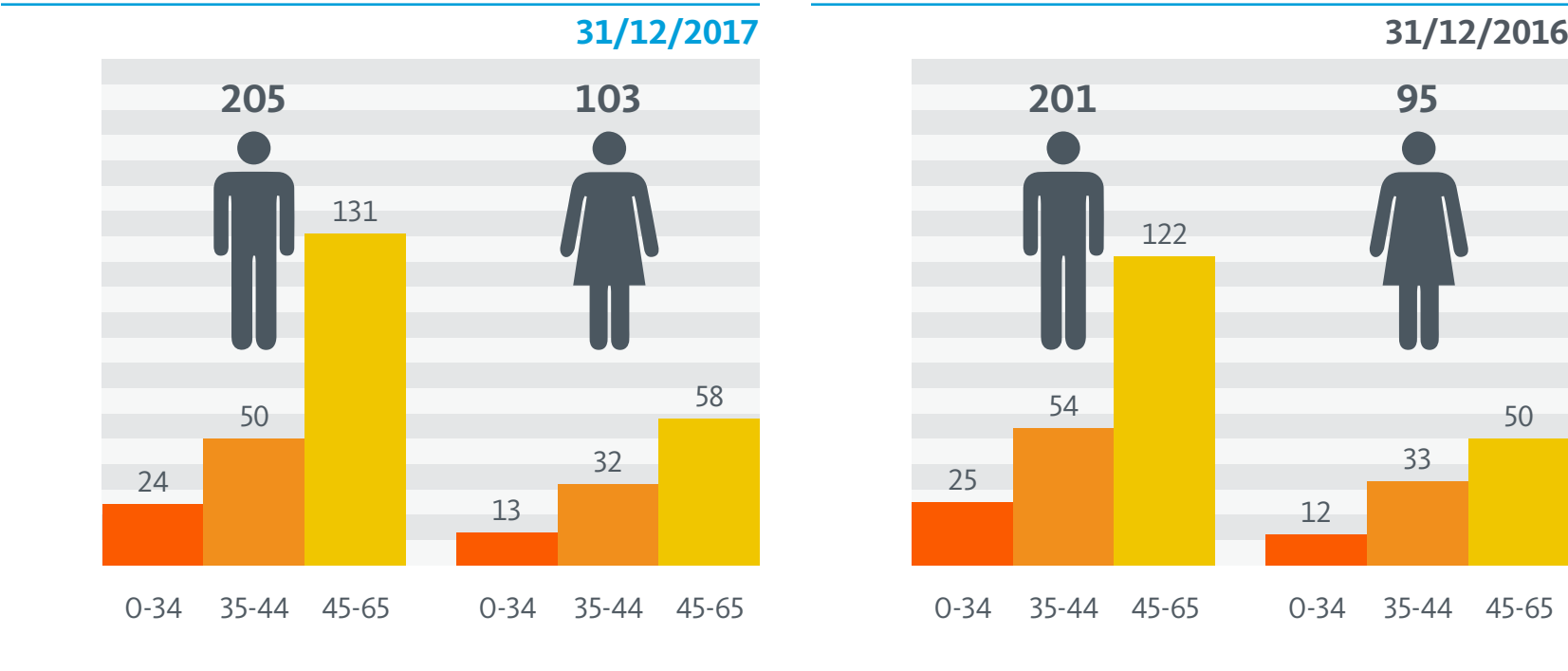
UTILISE AVAILABLE QUANTITY AND QUALITY	
Achieved 2016	Organisation of in-company training sessions; survey of managers' and supervisors' management competencies
Target 2017	Development of permanent education policy; creation of mobility/sustainable employability budget
Achieved 2017	Budget available
Target 2018	Encourage meaningful utilisation of available budgets by attractive offer
Target 2018	Develop performance management system for employees

PROMOTE EMPLOYEE MOBILITY	
Achieved 2016	Develop policy on temporary and structural mobility: intentions formulated
Target 2017	Formulate policy
Achieved 2017	Policy included in 2018–2020 HR Strategy; internal and external internships realised
Target 2018	Programme focused on sustainable employability

COMPETITIVE AND REASONABLE TERMS OF EMPLOYMENT	
Achieved 2016	Review of job classification system: no recalibration needed
Target 2017 and beyond	Examine whether introduction of broad job descriptions contributes to promoting mobility
Achieved 2017	Not achieved, generic job descriptions pilot running
Target 2018	Completion of pilot phase + action plan
Achieved 2016	New remuneration policy established and approved
Target 2017	Implementation of new remuneration policy effective 1 January 2017
Achieved 2017	Achieved
Target 2018	Study of possibilities for making employees' growth in salary scale dependent on personal development

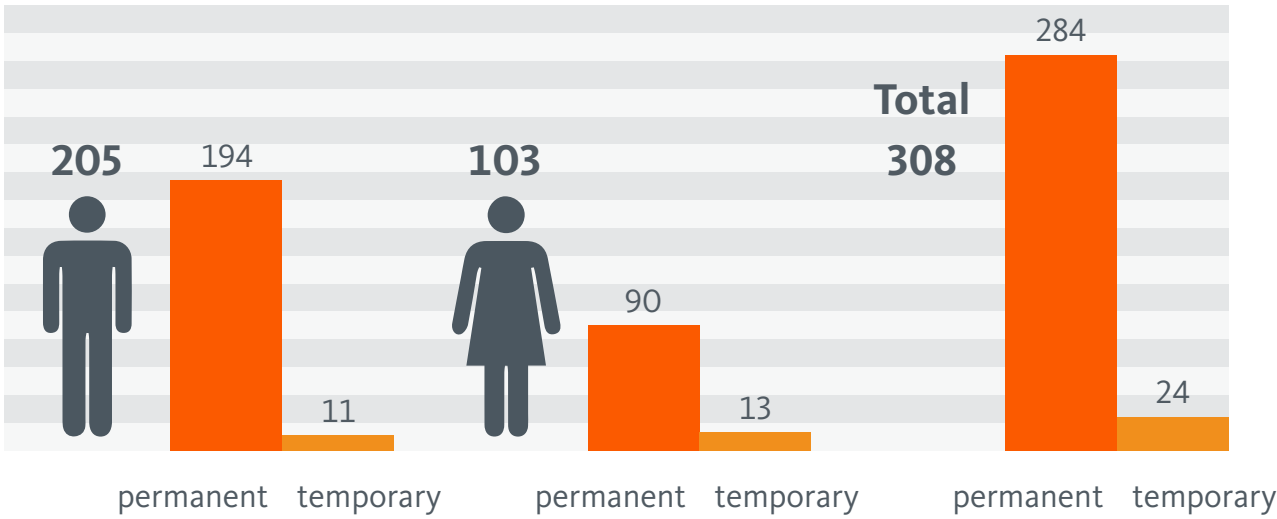
DIVERSITY	
Target 2018	Determine targets for a more even men/women ratio and age structure of the workforce

AGE STRUCTURE OF WORKFORCE



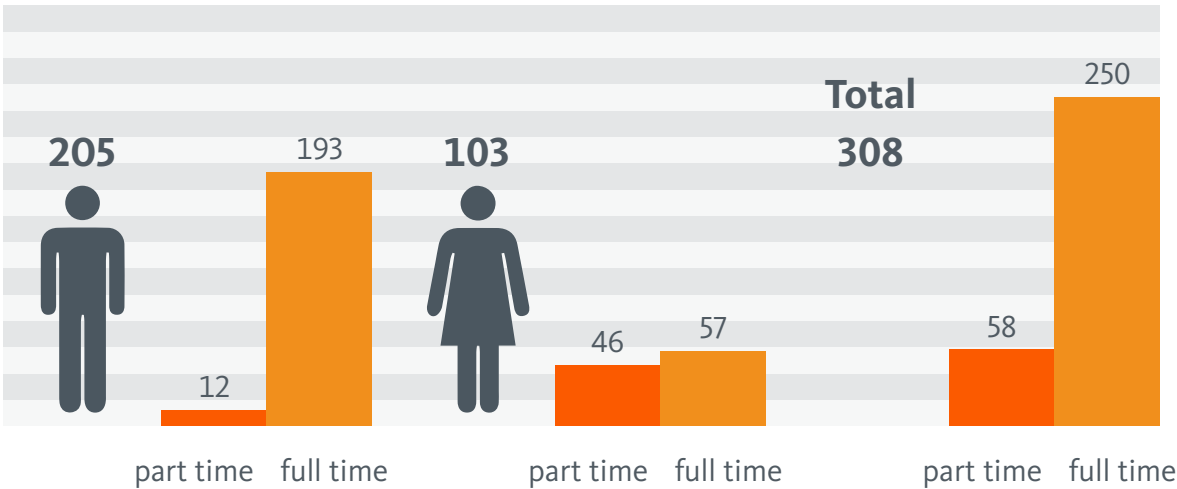
EMPLOYEES BY CONTRACT TYPE

31/12/2017



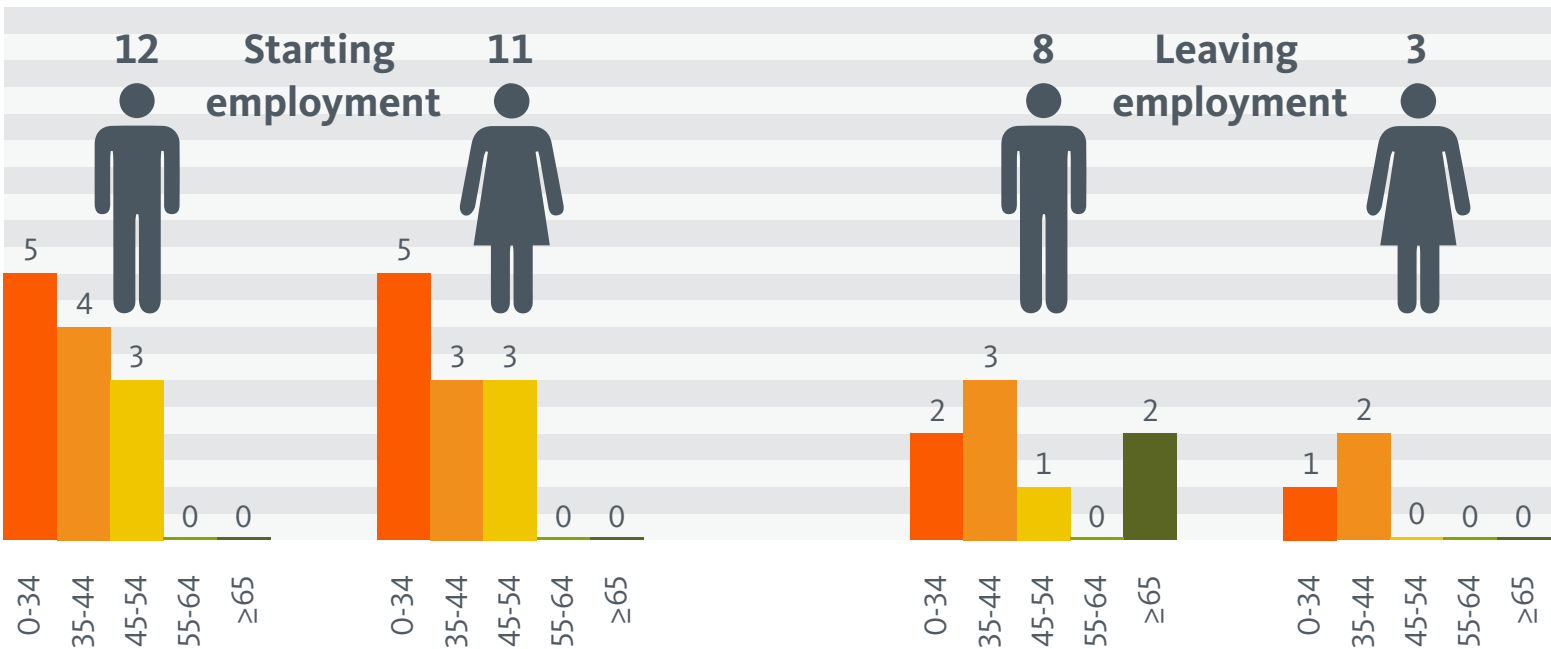
EMPLOYEES BY WORKING HOURS

31/12/2017



EMPLOYEE TURNOVER

31/12/2017



As at 1 January 2018, the bank had 308 employees. In addition, 52 external staff were employed by the bank. The bank welcomed 23 new employees, while 11 employees left the bank. The composition of the workforce and staff turnover is shown in the figures on page 51. The percentage of women in management positions is 27%. Twenty-one employees made use of the parental leave scheme, all of whom returned to their ‘former’ positions. One employee left the bank’s employment thereafter. Two complaints about working conditions were submitted to confidential counsellors in 2017; they were settled together with the two outstanding complaints from 2016.

FLEXIBLE AND AGILE

One of the bank’s strategic objectives is to enhance the flexibility of its employees, thereby also increasing the bank’s agility. Making employees more broadly deployable in different positions and roles increases their added value.

TRAINING COSTS (IN EUR)

	2017	2016	2015
Total	743,672	650,833	455,813
Amount per employee	2,422	2,199	1,530

This internal mobility is promoted by enabling internal work experience initiatives and exchange programmes. Internal employees have priority for vacancies, even where this requires a training or work experience phase. Six employees took advantage of the opportunities for an internal or external work experience initiative in 2017.

REMUNERATION

BNG Bank adheres to a socially responsible and market-compatible remuneration policy for its employees. This policy must be compatible with the views of the bank’s clients and shareholders, while also enabling the bank to attract and retain the right employees. Against this background, individual performance-related remuneration was abolished with effect from 1 January 2017. Employees were partly compensated for this measure by an increase of their fixed remuneration. However, a conscious decision was also made to place part of this performance-related remuneration in a shared mobility budget. Employees can use this budget to help fund active steps that they take to increase their sustainable employability and mobility.

GIVING EMPLOYEES CONTROL

The bank encourages employees to think about their own sustainable employability and has developed an app specially for this purpose. This app offers employees insight into their work, development, health and finances. A website provides a set of tests and tools that they can use to follow up on this insight. The aim is for the insights obtained to provide greater input on discussions between employees and managers. First experience with these resources was gathered in the preceding year. So far, it has proved difficult to get employees to use the app as well as the tools on the website.

As the bank is convinced that using these resources has a proactive and positive effect on the relationship with management, it continues to encourage their use by employees.

HEALTH

The sickness absenteeism rate for 2017 in its entirety was around the agreed standard of 3%⁹, which is below the average for the Banking and Insurance Sector (2017: 3.7%)¹⁰.

	2017
BNG Bank	3.06%
BNG GO	0.92%

The Occupational Health & Safety Agency reported that most long-term cases of illness were based on purely medical causes which were unrelated to work or working conditions. No disorders contracted at work were observed at BNG Bank in 2017, nor were any reports of occupational diseases issued by the company medical officer.

The average age of employees is increasing (the average age in 2018 was over 47) and hence the statistical probability of increased sickness absence as well. For this reason, the bank’s approach to absenteeism is focused on prevention. Physiotherapy is made available on a preventative basis, for example. A periodic health check also provides the bank with information on the health of the workforce and enables it to concentrate on specific aspects of the preventive approach.

Roughly half of the employees who took part in the health check in 2017 consented to the results of the check being shared anonymously with the bank. To enable greater focus in the preventive approach, the bank intends to encourage more employees to share the results anonymously with the bank. The overwhelming majority of participants whose results were reported have a biological age corresponding to below the calendar age. Among this group of participants, the probability of lifestyle-related disorders in the coming five years is limited.

LEAN METHOD

Work was undertaken in 2017 to introduce the ‘Lean’ method in the credit process. Application of the Lean method enables the development of a flexible approach which prioritises the client’s interest and ensures that inefficiencies in the process are eliminated as far as possible. This aim is achieved through an emphasis on continuous improvement of the process.

⁹ A new staff information system was introduced in the course of 2017. From that point, the technique used to measure sickness absenteeism changed, which means that the results do not lend themselves to a direct comparison with those of previous years. The details of the methodology are included in the appendix containing the data measuring technique for CSR reporting purposes.

¹⁰ Occupational Health & Safety Agency.

BNG Bank applies this method in the credit process. It results in greater personal responsibility for employees and eventually also reduces the need for management. The impact of these changes will become more evident in the coming years. This procedure is fully in keeping with the type of client-focused, efficient organisation that BNG Bank aspires to be.

MANAGEMENT DEVELOPMENT

In 2016, it was established that the coaching leadership style is ripe for further development. This management style also fits in well with the organisation’s work practices. It is expected that this development will enhance the bank’s ability to ensure the success of its strategy. In 2017, a training programme was developed and initiated with a focus on practice-based learning. It is anticipated that this programme will promote mutual cooperation.

CONSULTATION WITH WORKS COUNCIL

Based on the evaluation of the consultation with the Works Council on the remuneration policy, a strategic participation agenda was drawn up together with the Works Council in the reporting year. This agenda provides for timely insight into envisaged changes and the Works Council’s role in relation to them. The Works Council was also consulted on the consequences for staff of the introduction of the Lean method in the credit process. A request for the Works Council’s formal opinion was submitted and these consultations resulted in a social plan, which sets out how the consequences of redundancy will be dealt with in the coming three years.

SUSTAINABLE OPERATIONS



The bank’s environmental impact is relatively limited, given the modest size of the workforce and the limited office space. Nonetheless, the bank aims to minimise this impact.

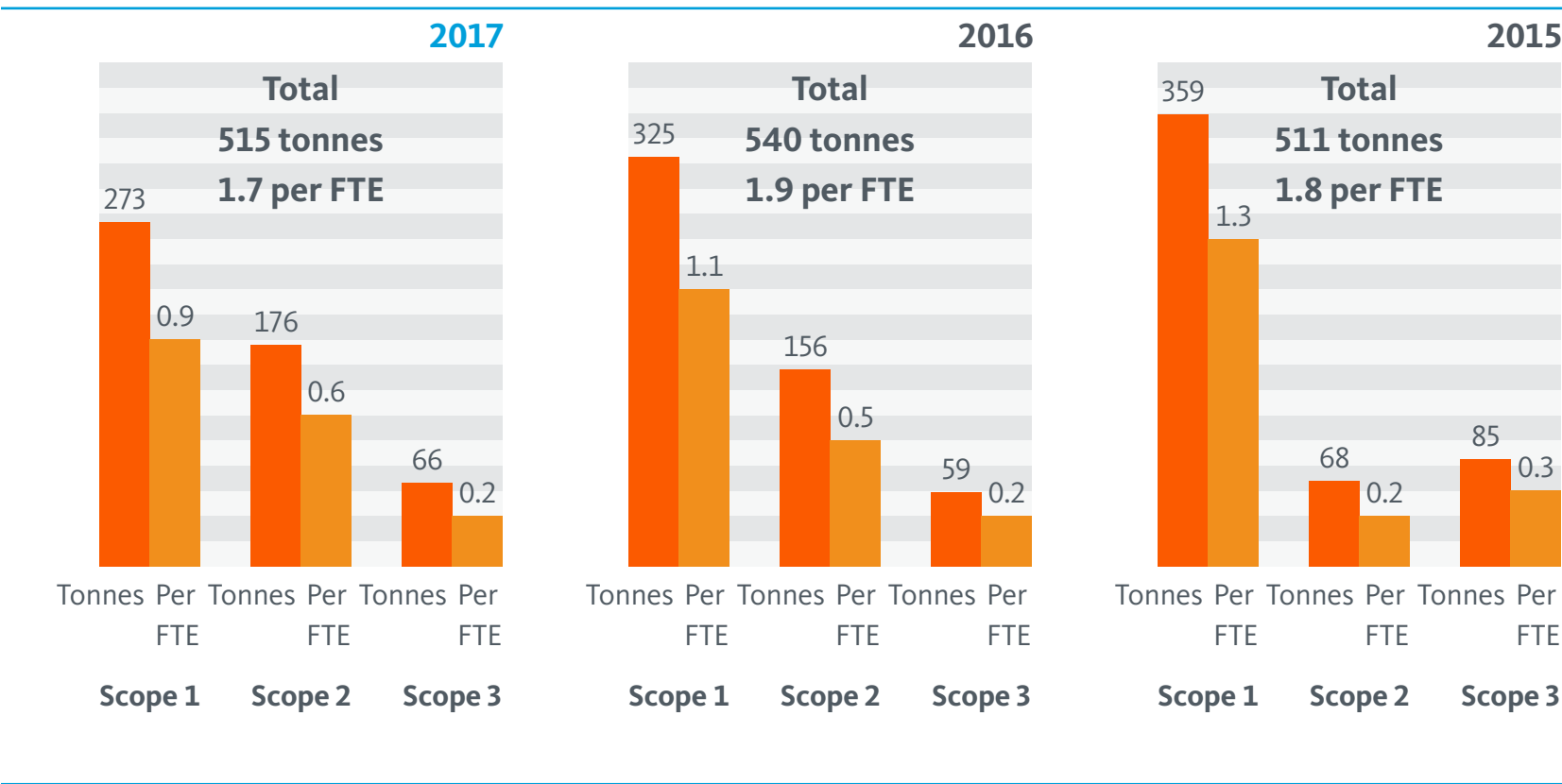
REDUCE CO ₂ EMISSIONS	
Achieved 2016	CO ₂ emissions: 540 tonnes
Target 2017 and beyond	Reduce CO ₂ footprint, if necessary through CO ₂ compensation
Achieved 2017	CO ₂ emissions: 515 tonnes, car lease scheme tightened
Target 2017	Comprehensive embedding of sustainability policy in HR policy, including in car lease scheme
Achieved 2017	Car lease scheme tightened
Target 2018	CO ₂ compensation via Softs

REDUCE PAPER CONSUMPTION	
Achieved 2016	Paper procurement 10,088 kg, first paperless meetings held
Target 2017 and beyond	Ongoing roll-out of paperless meetings
Achieved 2017	The use of an electronic replacement for paper was further implemented, which led to a 6,793-kg reduction in paper procurement

INCREASE LEVEL OF SUSTAINABLE PROCUREMENT	
Achieved 2016	Solar panels installed on office building; video conferencing facility implemented at end of 2016 to reduce no. of kilometres travelled; approved tightened procurement policy
Target 2017 and beyond	Reduce energy consumption; implement tightened procurement policy
Achieved 2017	Electricity consumption reduced, heat consumption increased; 96% of the purchasing budget spent through certified or assessed suppliers
Target 2018	Energy consumption reduced through modification of climate control system

The bank attempts to limit its essential operations as much as possible and to conduct them in a socially responsible manner. Both aspects are the basic principles for the organisation’s sustainable operations. An important indicator for environmental impact is the CO₂ footprint.

CO₂ EMISSIONS BY TYPE AND PER FTE



The CO₂ footprint is largely determined by the kilometres travelled by road and air, which vary according to the business activities. The quantity of petrol and diesel used showed a decline, causing Scope 1 emissions to fall considerably. Energy consumption also influences the CO₂ footprint. BNG Bank uses green energy and is connected to the district heating network. Combined with moves to reduce energy consumption, this strategy completes the basic principles for sustainable operations. Appropriate steps were taken in 2017 by making modifications to the system, which included replacing air compressors with more energy-efficient alternatives, and they were one of the reasons for the decline in energy consumption. The level of heat consumed increased. The planned installation of solar collectors for the hot water supply has been deferred to allow an examination of whether the residual heat from the building also can be used for supplying hot water. This factor will be taken into consideration when modifying the climate control system, which is planned for 2018.

The car lease scheme was modified in 2017 to include a reduction in the maximum permissible CO₂ emissions per kilometre, among other things.

In the year under review, the office building was given an 'A' energy label. This result amply meets the required standard for buildings in 2023 ('C' energy label). The bank aims to reduce its emissions further, however. In the coming year, we will explore – and possibly implement – measures to make the climate control system more energy efficient. Further insulation is another energy-saving measure which will have a positive impact on the energy label. However, this radical intervention will be carried out in the longer term. BNG Bank's goal is to be able to compensate fully for its remaining CO₂ emissions by no later than 2020.

The bank's procurement policy focuses on quality, sustainability and cost control. Every attempt is made to work with suppliers who adhere to sound sustainability principles. Large suppliers are periodically assessed for integrity and sustainability. Certified suppliers (ISO 14001 or Eco Management and Audit Scheme – EMAS) are preferred product suppliers. Of all procured articles, 96% was delivered by certified suppliers or suppliers who were assessed for their sustainability performance. The procurement policy is published on bngbank.nl.

The possibilities for greening office supplies were explored in the reporting year. Most items were included in this review. In addition to the origin and sustainability of the materials used, their user-friendliness was also examined. The review led to two thirds of the examined items being replaced by a sustainable alternative.

Together with the caterer, the possibilities for introducing sustainability in the company restaurant were intensively examined this year. In addition, the bank provides an opportunity to someone with limited access to the labour market of gaining work experience in the catering team. This opportunity was taken up in the first quarter.

Dilemma: facilitate or prevent?

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

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

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

Outlook for 2018

Sustainability, digitisation, decentralisation and disintermediation are trends that will continue to feature prominently on the bank's agenda in 2018.

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 completed the implementation of this standard and will provide full transparency on the differences compared to the current standard (IAS 39) in the 2018 Interim Report. Based on the bank's current understanding, the transition to the opening balance sheet in accordance with the new standard will result in a decrease in equity of approximately EUR 270 million. This decrease is mainly attributable to adjustments relating to hedge accounting, with more than half relating 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 relatively limited. The 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 financial statements.

BNG Bank expects the total volume of new long-term lending in 2018 to exceed EUR 9 billion. This expectation is in line with the volume of new long-term lending in 2017. In particular, the bank expects a greater demand for lending from housing associations to enable investments in new homes, as well as further increased competition. The bank aims for a share in solvency-free long-term lending to local authorities, housing associations and healthcare institutions of at least 55% in 2018 too.

The anticipated long-term funding requirement of the bank in 2018 amounts to approximately EUR 18 billion. The bank's policy is geared to achieving diversification in terms of product, currency and term. Expectations are that two new SRI Bonds will be issued in 2018.

Consolidated operating expenses are expected to amount to EUR 79 million in 2018. As a result of the continued large volume of new regulations that are required to be implemented in the bank's systems and processes, the bank's cost level will also continue to rise further in 2018. The bank's contribution to the statutory bank levy in 2018, which is determined on the basis of the balance sheet at year-end 2017, amounts to approximately EUR 32 million. BNG Bank has additionally taken account of a contribution to the European resolution fund of EUR 10 million.

IFRS 9 has caused a **reduction in equity** but is having a relatively **limited impact on the Tier 1 ratio** and the **leverage ratio**.

The interest result for 2018 is expected to range between EUR 390 million and EUR 440 million. The unpredictable movements on the financial markets make it impossible to give a reliable expectation of the unrealised results within the financial transactions result. Decisions made by the ECB on possible adjustments to the current, very loose, monetary policy may have a significant impact on these markets in 2018. In view of the persisting volatility, the bank does not consider it wise to make a statement regarding the expected net profit for 2018.

Declaration of responsibility

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

The Hague, 9 March 2018

EXECUTIVE BOARD

G.J. SALDEN, CHAIR (IN OFFICE SINCE 1 JANUARY 2018)

O.J. LABE

J.C. REICHARDT

DATA MEASURING TECHNIQUE FOR CSR REPORTING PURPOSES

Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and Compliance/the Compliance Officer, and the consumption records of Facility Management.

With regard to sickness absence, as from June 2017, the hours worked in excess of 36 hours a week have also been included in the measurement of sickness absence for employees who work 40 hours a week. The second year of illness will be included in the measurement as well from now on. Previously, only sickness absence in the first year of illness was included. Now, however, it is also common practice among other companies to include the second year of illness.

As from June 2017, the progressive sickness absence rate for the past 12 months will be based on the new system, as a result of which it will not be readily comparable with the 2016 rate.

Assumptions/estimates were made in calculating the organisation's CO₂ footprint in the form of an estimate of the total office area as well as gas and electricity consumption.

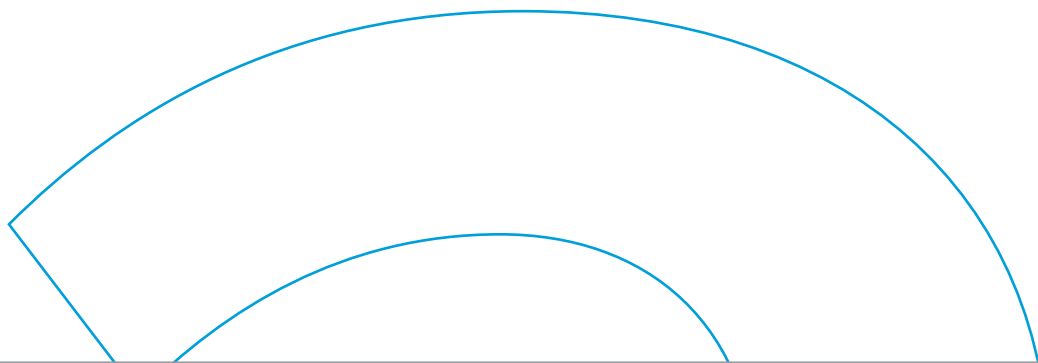
The number of kilometres driven by employees in their own cars for business purposes is not known. However, this hiatus is amply compensated by the conservative estimate made for the private use of leased cars (10,000 km/year).

In terms of accuracy, BNG Bank deems the inherent limitations attached to the estimates as non-material.

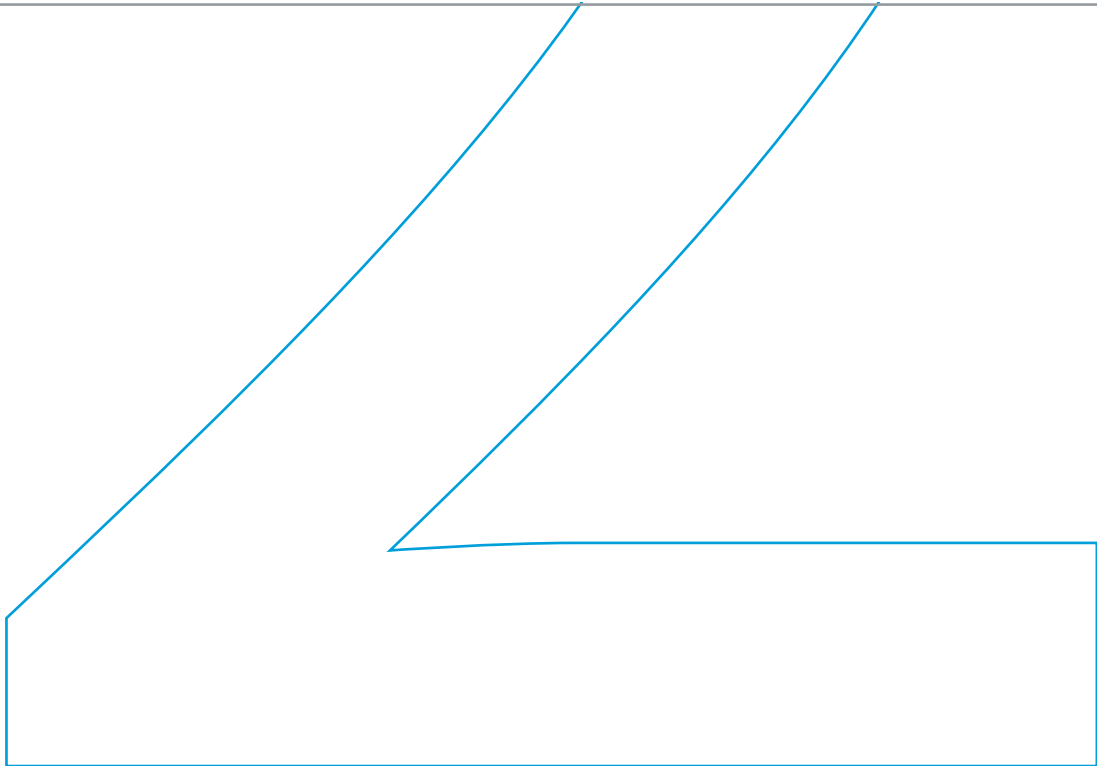
BNG Bank uses 2010 as the baseline year for its CO₂ emissions – the year in which the bank began registering its emissions on an annual basis. The bank's CO₂ footprint is calculated using operational control instruments.

All business units that fall within the bank's operational control are included in its CO₂ footprint. Up to and including 2012, BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK) and those set out in the EC IPPC (Industrial Emissions) Directive. Since BNG Bank operates solely on the Dutch market, it was decided in 2013 no longer to apply the international conversion factors but from now on to use instead the standard conversion factors generally accepted within the Netherlands in accordance with the CO₂ performance ladder, barring one exception. Green power is extrapolated as being climate-neutral (0 grams CO₂ /kWh). In the annual report, CO₂ emissions generated by district heating are calculated on the basis of the STEG emissions factor (36 kg/GJ). Previously, the calculation was based on 20 kg/GJ in accordance with the CO₂ performance ladder. The STEG emissions factor applied by the supplier (46.2 kg/GJ) has been used for this report. In contrast to the CO₂ performance ladder, business flights are attributed to Scope 3 (in accordance with the GHG protocol).

The CSR information is audited internally and by an external party.



Corporate governance



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Corporate structure

TWO-TIER STRUCTURE

BNG Bank has a two-tier governance structure consisting of a Supervisory Board and an Executive Board. The Supervisory Board's task is to monitor the policy of the Executive Board and the general course of affairs in the company and its affiliated enterprise. The members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The Supervisory Board has four committees: the Audit Committee, Risk Committee, HR Committee and Remuneration Committee. The responsibilities and activities of the Committees are described in further detail in the report of the Supervisory Board.

The Executive Board is charged with the day-to-day management of BNG Bank. The Executive Board is responsible for managing the company, particularly for defining and adopting the bank's strategy and strategic objectives, and for achieving those strategic objectives. The Chair and other members of the Executive Board are appointed and dismissed by the Supervisory Board.

COMPOSITION OF THE EXECUTIVE BOARD

The Executive Board consists of three members, including a Chair. The Executive Board is composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board and diversity are preconditions for the Executive Board to perform its tasks properly. The profile of the Executive Board is published on the BNG Bank website. The duties and responsibilities of the Executive Board and its members are described in the Executive Board Regulations, which are also published on the BNG Bank website.

On 1 January 2018, Gita Salden succeeded Carel van Eykelenburg as Chair of the Executive Board.

CAREL VAN EYKELENBURG

Carel van Eykelenburg was Chairman of the Executive Board until 31 December 2017. He was appointed an Executive Board member on 1 January 2005 and became Chairman on 15 October 2008. In connection with his position at BNG Bank, Mr Van Eykelenburg is a Board member and Treasurer of the Dutch Banking Association (NVB) and Chair of the Supervisory Board of BNG Gebiedsontwikkeling BV, a BNG Bank subsidiary. He also is an Executive Board member of Stichting Pensioenfonds ABP and Chair of the Board of the W.F. Hermans Institute.

**GITA SALDEN**

Gita Salden was appointed as Chair of the Executive Board with effect from 1 January 2018. In recent years, she was employed at the Ministry of Finance, where she was Deputy Treasurer-General and Director of Financial Markets from 2012.

Gita Salden's particular focus areas include public finance/lending, marketing and communications, organisational development/HR-policy, the internal audit department, compliance and the company secretariat and economic research department. In addition to directly managing these departments, she is responsible for overall coordination, strategy and stakeholders (shareholders, Supervisory Board, Works Council).

**JOHN REICHARDT**

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

John Reichardt's particular focus areas include risk management, financial reporting, external supervision (ECB, DNB, AFM) and asset & liability management. In addition to directly managing these related departments, he is Chair of the Financial Counterparties Committee and of the Capital Policy and Financial Regulations Committee.

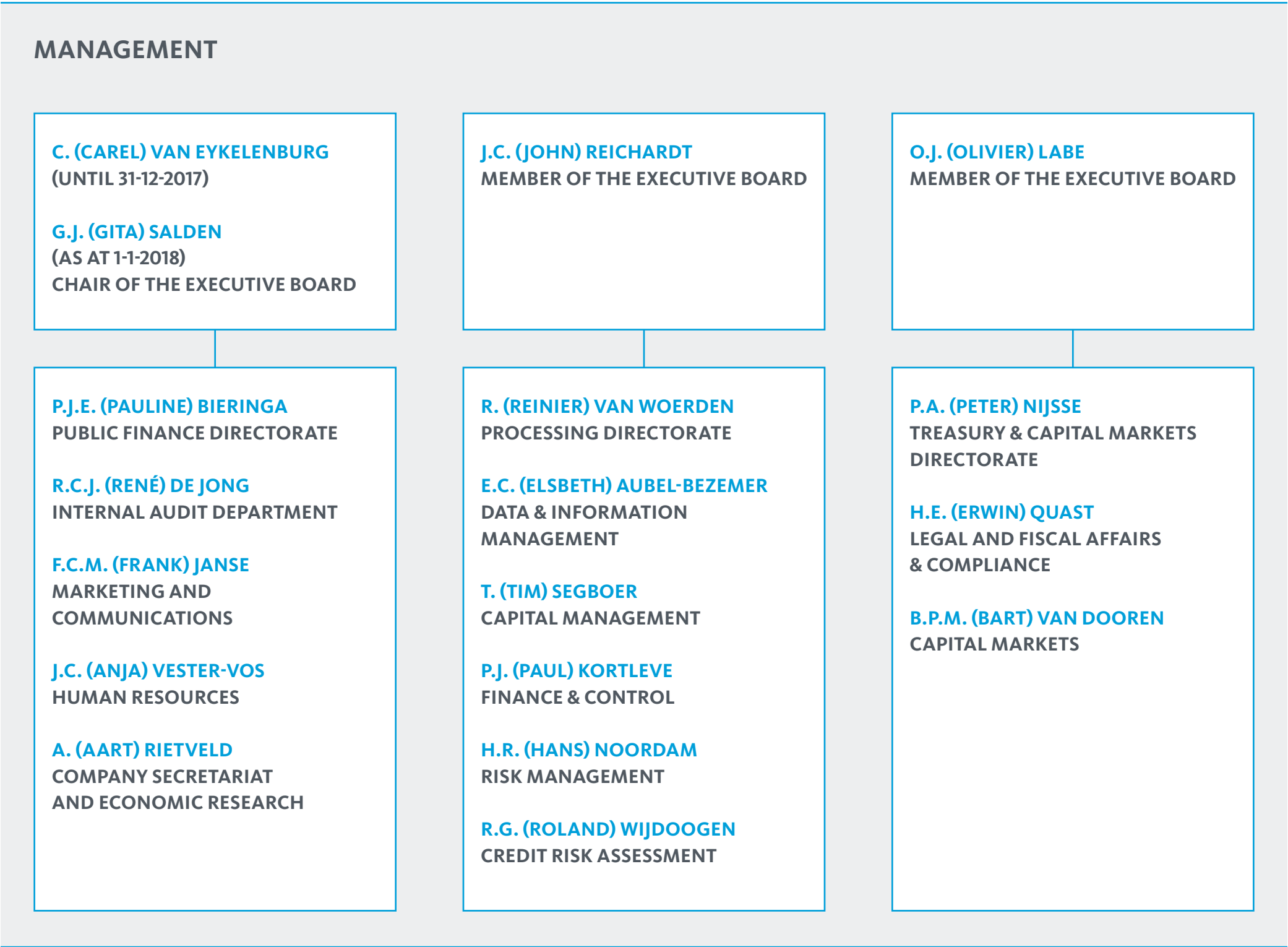
**OLIVIER LABE**

Olivier Labe was appointed as Executive Board member on 1 May 2015. In connection with his position at BNG Bank, Olivier Labe is Chair of the Supervisory Board of Hypotheekfonds voor Overheidspersoneel BV, a BNG Bank subsidiary, and a member of the Supervisory Board of the BNG Sustainability Fund (Stichting BNG Duurzaamheidsfonds). He is also a Supervisory Board member of a.s.r. Vermogensbeheer BV.

Olivier Labe's particular focus areas include financial markets and treasury, asset & liability management and monetary economics. In addition to directly managing these related departments, he is responsible for legal and tax affairs. Olivier Labe is Chair of the Credit Committee, the Investment Committee and the Sustainability Committee.

ORGANISATION CHART

The organisation chart shows the structure of the bank’s organisation.



MANAGEMENT BOARD

The Executive Board is supported by the Management Board. The Executive Board members have formal authority to make decisions in the Management Board and the remaining members may give an advisory opinion. The Management Board focuses on defining and adopting the organisational policy within the framework of the company’s strategy and strategic objective, defining and adopting as well as monitoring the commercial policy within the restrictions imposed by capital allocation in connection with solvency limits, and managing the general course of affairs and projects. Specific risks addressed by the Management Board are the credit risk and the operational risk. The Management Board consists of the Executive Board members, the Managing Director of Treasury & Capital Markets, the Managing Director of Public Finance, the Managing Director of Processing, the Manager Risk Management, the Manager Finance & Control, the Manager Data & Information Management and the Company Secretary. With effect from 1 January 2018, the Manager Human Resources is also part of the Management Board.

The participants in the Management Board have contact with the Supervisory Board in meetings of the Supervisory Board Committees, in the induction programmes for new Supervisory Board members and in the permanent education programme. Individual participants in the Management Board attend when required and/or give presentations during these occasions. Informal coordination also takes place between parties.

SUBSIDIARIES AND ASSOCIATES

BNG Bank has two subsidiaries that operate in support of the bank's core business activity. BNG Gebiedsontwikkeling BV is specialised in risk-based participation in land development, as well as process design and process guidance for municipalities and other public or semi-public organisations. Hypotheekfondos voor Overheidspersoneel BV used to issue mortgages on favourable terms for public sector employees. In light of changed market conditions, BNG Bank decided to discontinue this product and to accept no new clients from 2013. BNG Bank also has several associates, which are listed on bngbank.nl.

SHAREHOLDERS

BNG Bank's shareholders are Dutch public authorities exclusively. Half of the bank's share capital is held by municipal authorities, provincial authorities and a water board. The other half of the share capital is held by the Dutch State. The regular General Meeting of Shareholders is held annually. Regular items on the agenda include the approval of the annual financial statements, approval of the proposed dividend, and grant of discharge to each of the Executive Board and Supervisory Board members for their duties. The General Meeting of Shareholders appoints, reappoints and dismisses the Supervisory Board members.

Corporate governance statement

The internal risk management and control systems are an important point of attention within BNG Bank. The Risk Governance Framework forms the basis for all risk management activities within BNG Bank and clarifies the principles behind the internal control and risk management system. The Risk Appetite Statement describes the risks that the bank wishes to accept in order to achieve its objectives. The various risks attendant on the bank's activities are discussed each year in BNG Bank's Annual Report. In their 'In control' statement to the Executive Board, the managing directors and department heads reporting directly to the Executive Board focus on risk management in relation to the bank's risk appetite. They also set out in the Annual Plans how they aim to fulfil their responsibility in meeting the bank's risk appetite. The overall framework is closely linked to the bank's capital management policy, which is periodically reviewed and discussed with the regulator.

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

The Annual Report provides sufficient insight into shortcomings in the operation of BNG Bank's internal risk management and control systems. The aforementioned systems provide a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. Obviously, these systems can not of themselves provide absolute certainty for realizing the corporate objectives and not prevent all inaccuracies, fraud and violation of laws and regulations. A detailed explanation is included in the Risk Section in the Annual Accounts.

The consolidated financial statements are prepared on the basis of the going-concern principle. No material risks and uncertainties were identified which are relevant to the expectation of the company's continuity for a period of twelve months after the preparation of the report.

Corporate Governance Code

REVISION OF CORPORATE GOVERNANCE CODE

The revision of the Dutch Corporate Governance Code (hereinafter ‘the Code’), effective 8 December 2016, and its implications for working methods and regulations was an important topic for BNG Bank in 2017. Although the Code does not formally apply to BNG Bank, the bank does conform to the provisions of the Code by aligning its working methods, regulations and so on with the Code as far as possible. The revision of the Code prompted a review in 2017 of the extent to which BNG Bank satisfies the Code’s provisions. Compliance with the Code is based on the ‘comply or explain’ principle, where BNG Bank’s starting point is that it will apply the Code’s provisions as far as possible.

AMENDMENTS OF ARTICLES OF ASSOCIATION AND REGULATIONS

Partly in response to the Code, the Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board Committees and the Executive Board will be amended in the first half of 2018. The following substantive amendments will be made to the Articles of Association and Regulations.

The Audit Committee Regulations will be amended in accordance with best practice provision 1.3.1 (appointment and dismissal of senior internal auditor) to provide that the appointment and the dismissal of the senior internal auditor should be submitted to the Supervisory Board for approval, along with a recommendation issued by the Audit Committee. Currently, only the Audit Committee is consulted regarding the appointment and dismissal of the Manager IAD by the Executive Board.

A provision will be added to the Audit Committee Regulations to the effect that the Audit Committee also focuses on monitoring the Management Board with regard to the company’s tax policy in accordance with best practice provision 1.5.1.iv.

In BNG Bank’s Articles of Association, the appointment and reappointment periods of Supervisory Board members will be amended in accordance with best practice provision 2.2.2 to provide that a Supervisory Board member is appointed for a period of four years and may then be reappointed once for another four-year period. In the event of a reappointment after an eight-year period, reasons should be given in the report of the Supervisory Board in the Annual Report. The current Articles of Association provide that Supervisory Board members may be appointed for three four-year periods. The retirement schedule, which is published on bngbank.nl, has been modified in the meantime in accordance with best practice provision 2.2.2 to stipulate appointment for two four-year periods.

Certain best practice provisions from the Code are not laid down formally in the bank's Articles of Association and Regulations. These provisions concern the delegated Supervisory Board member (best practice provision 2.3.8) and the response time (best practice provision 4.1.6). Articles of Association and Regulations do not contain provisions which preclude these best practice provisions and there may be circumstances in which it is possible to rely on the Code.

APPLIED PROVISIONS

Most of the best practice provisions have been implemented by BNG Bank and laid down in working methods, published on bngbank.nl or included in this Annual Report. Accordingly, starting with the 2017 Annual Report, the report of the Supervisory Board comments on how the duties of the Committees were carried out in the financial year and states the composition of the Committees, the number of Committee meetings, the main items discussed at the meetings, as well as the absenteeism rate from Supervisory Board and Committee meetings of each Supervisory Board member, in accordance with best practice provisions 2.3.5 and 2.4.4.

With effect from 2018, the Annual Report prior to its adoption by the General Meeting of Shareholders and the agenda of the General Meeting of Shareholders with accompanying notes will be posted on bngbank.nl. Information relevant to shareholders is also published in accordance with best practice provisions 4.1.4 and 4.1.5. The policy on bilateral contacts with shareholders referred to in best practice provision 4.2.2 will be posted on bngbank.nl during the course of 2018.

Best practice provisions 2.1.5 and 2.1.6 state that the Supervisory Board should draw up a diversity policy for the composition of the Management Board, the Supervisory Board and – if applicable – the executive committee, and that the corporate governance statement in the Annual Report should explain the diversity policy and the way that it is implemented in practice. The diversity policy was drawn up in 2017 and details are set out in this Governance section.

Best practice provision 2.2.4 states that the Supervisory Board should ensure that the company has a sound plan in place for the succession of Management Board and Supervisory Board members, and that it should also draw up a retirement schedule for the Supervisory Board. An initial draft of the succession plan and a retirement schedule were drawn up in 2017. The succession plan for the Supervisory Board and Executive Board will be elaborated further in 2018.

Within BNG Bank, the Management Board acts as executive committee, a committee which is closely involved in the decision-making of the Executive Board and which – in addition to members of the Executive Board – may also include members of senior management in accordance with best practice provision 2.1.3. Within the Management Board, the Executive Board members have the formal authority to make decisions and the remaining members may give an advisory opinion. In accordance with the best practice provision, the supervision exercised by the Supervisory Board will extend more than previously to the Executive Board in relation to the Management Board.

Best practice provisions 2.2.6 and 2.2.7 state that the Supervisory Board should evaluate its own functioning, the functioning of the various Committees and that of the individual Supervisory Board members at least once per year. At least once a year, the Executive Board also evaluates its own functioning as a collective body and that of the individual Executive Board members. The Supervisory Board evaluates its own functioning each year and will, more than in the past,

also evaluate the functioning of individual Supervisory Board members on a yearly basis. To date, the evaluation of the functioning of individual Supervisory Board members has taken place mainly as preparation for reappointments. With effect from 2018, the Executive Board will evaluate its own functioning as a collective body and that of the individual Executive Board members.

Best practice provisions 2.5.2 and 2.5.4 state that the Executive Board should draw up a code of conduct as well as monitor its effectiveness and compliance with this code, on the part of both itself and its employees. Monitoring the effectiveness of and compliance with BNG Bank's code of conduct takes place via the complaints procedure, the incidents reports and the supervision of compliance with policy. As from 2018, the Executive Board will conduct more direct monitoring regarding the effectiveness of and compliance with the code of conduct, while a statement on the effectiveness of and compliance with the code of conduct will be included with effect from the 2018 Annual Report.

In the event of the early termination of the relationship with the external audit firm, or the early retirement of an Executive Board or Supervisory Board member, a press release will be issued in accordance with best practice provisions 1.6.5 and 2.2.3.

UNAPPLIED PROVISIONS

Various provisions in the Code do not apply to BNG Bank, as the provisions concerned mainly relate to share-related matters. The provisions or sub-provisions concerned are as follows:

- 2.1.8 vi, vii and 3.3.3: Share ownership of a supervisory board member in the company.
- 3.1.2 vi, vii: Shares and options as part of remuneration policy.
- 4.2.3: Meetings and presentations.
- 4.3.3: Cancelling the binding nature of a nomination.
- 4.3.4: Voting right on financing preference shares.
- 4.3.5 and 4.3.6: Institutional investors' voting policy.
- 4.4: Issuing depositary receipts for shares.
- Chapter 5: One-tier governance structure.

In addition, there are certain provisions which BNG Bank has chosen not to apply. The opportunity for shareholders to vote by proxy, as formulated in principle 4.3, will not be provided. This deviation from the Code was previously noted as an unapplied provision in relation to an earlier version of the Code. Shareholders must be physically present to take part in the General Meeting of Shareholders. BNG Bank knows all its shareholders, can approach them directly and wishes to continue using the General Meeting of Shareholders as a contact moment.

A temporary 'explain' provision concerns the inclusion of pay ratios in the remuneration policy. The remuneration policy for the Executive Board was adopted in 2016. This remuneration policy is not yet based on pay ratios. A future review of remuneration policy will also take pay ratios into consideration.

Diversity policy

STARTING POINTS

BNG Bank supports the view that a diverse composition of executive, management and supervisory bodies of organisations enables the members of those bodies to challenge decisions in a constructive manner and to be more open to innovative ideas, thereby reducing the risk of one-sided or biased perceptions and decision-making among the members. With this view in mind, BNG Bank has drawn up a diversity policy for its Supervisory Board, Executive Board and Management Board. This diversity policy will be extended to a diversity policy applicable to BNG Bank as a whole.

Best practice provision 2.1.5 of the Corporate Governance Code states that the diversity policy should address the concrete targets relating to diversity and the diversity aspects relevant to the company, such as nationality, age, gender, and education and work background. BNG Bank highlights the following elements in its diversity policy: (1) gender, (2) age, and (3) knowledge and expertise. In view of the fact that BNG Bank operates primarily in the Dutch market, no diversity target will be defined for the element 'nationality' at this moment.

GENDER

The bank aims to ensure a balanced distribution of the seats in the Executive and Supervisory Boards, with at least 30% of the seats being occupied by women and at least 30% by men. At the beginning of 2017, the Supervisory Board consisted of 9 members, 6 of whom were men (67%) and 3 women (33%). Following the departure of Petri Hofsté as from 20 April 2017, the Supervisory Board had a total of 8 members: 6 men (75%) and 2 women (25%). The appointment of Marlies van Elst to the Supervisory Board in 2018 will contribute to a more balanced distribution of seats in the Supervisory Board. In 2017, the Executive Board consisted of 3 male members (100%), meaning that the standard was not complied with in 2017. With the appointment of Gita Salden as Chair of the Executive Board with effect from 1 January 2018, compliance with the norm was re-established, as the Executive Board now consists of two men (67%) and one woman (33%).

As the ten members of the Management Board (including the members of the Executive Board) included only two women in total, the standard was not complied with in 2017. BNG Bank nonetheless endeavours to ensure a balanced composition, with at least 30% of the Management Board members being women. Effective January 2018, Manager Human Resources Anja Vester was appointed a member of the Management Board, while the arrival of Chair of the Executive Board Gita Salden as from 1 January 2018 means that the Management Board consists of 7 men (64%) and 4 women (36%). The total percentage of women in management roles at BNG Bank is 27%.

AGE

BNG Bank endeavours to achieve greater distribution in terms of age groups. The higher age groups were strongly represented in 2017. The appointment of a new Supervisory Board member with effect from 19 April 2018 ensures that one member belongs to a lower age group (45–54 years). The appointment of Gita Salden to the Executive Board as from 1 January 2018 will also result in a shift towards a lower age category (45–54 years).

MANAGEMENT BY AGE BRACKET

	31/12/2017		
	SUPERVISORY BOARD	EXECUTIVE BOARD	MANAGEMENT BOARD
≤ 34 years	0	0	0
35 – 44 years	0	0	1
45 – 54 years	0	1	5
55 – 64 years	4	1	3
≥ 65 years	4	1	1
Average age	64	57	51

EXPERTISE AND EXPERIENCE

The job profile of the Supervisory Board states that the Supervisory Board must have members with sufficient expertise and management experience in the fields of (A) banking and finance, (B) local and regional authorities, (C) central government and (d) BNG Bank’s client groups. In 2017, the Supervisory Board complied fully with the desired profile. The areas of expertise are represented by 3, 4, 3 and 3 members, respectively. Based on the current job profile, no measures are needed. The job profile of the Executive Board states that the Executive Board must have a member with expertise and experience particularly in the field of (A) financial markets & treasury, asset & liability management and monetary economics, (B) risk management, financial reporting, supervision and asset & liability management, and (C) the public or semi-public sector. In 2017, the Executive Board complied fully with the desired profile. Each member represents one area of expertise. Based on the current job profile, no measures are needed.

Remuneration policy and remuneration in 2017

This section deals with the remuneration of the Executive Board, the remuneration of the employees and the remuneration of the Supervisory Board for the year 2017. All information on BNG Bank's remuneration policy can be found at the theme page 'remuneration policy' on bngbank.nl.

STARTING POINTS

The remuneration policy is compatible with the legal and policy frameworks for institutions established in the Netherlands. In 2017, the following laws and regulations were instrumental in determining the remuneration policy:

- European and national financial supervision rules, including the Capital Requirements Regulation, the Financial Supervision Act, the Regulation on Sound Remuneration Policies, the Remuneration Policy (Financial Enterprises) Act, and the Work and Security Act.
- the Dutch Corporate Governance Code;
- the Banking Code.

In addition to satisfying legal and regulatory requirements, the remuneration policy also complies with the central government's policy for state-owned enterprises.

REMUNERATION POLICY FOR THE EXECUTIVE BOARD

The current remuneration policy for Executive Board members was adopted by the General Meeting of Shareholders on 5 October 2016. This remuneration policy is applicable in its entirety to executives appointed after 1 January 2016. The existing employment contracts of executives appointed before that date are respected.

BNG Bank strives for terms of employment and a remuneration level for its Executive Board that are in line with the market. 'In line with the market' means determined through comparison with what is considered normal in the sector of the Dutch labour market relevant to BNG Bank. In order to make this comparison, a reference group was defined in consultation with the shareholders. The reference group is comprised of both public and private components. While the private group component takes the WNT standard as its reference, the public component was compiled in consultation between the BNG Bank Supervisory Board and shareholders. This public component has a weighting of 60% and the private component a weighting of 40%. The median in the reference group serves as the starting point for market conformity. Independent external advice is used to assist in comparing remuneration. In principle, the Supervisory Board reviews every four years whether developments in the reference group warrant modification of the Executive Board terms of employment.

The total remuneration of the Chair in 2016 will not exceed EUR 301,000. This upper limit for the remuneration is increased annually (from 2017 onwards) with the general increases in the Collective Labour Agreement for the Banking Industry. The primary remuneration for Executive Board members consists of 12 times the monthly salary plus holiday allowance.

The employment contracts with the Executive Board members stipulate which provisions from the Collective Labour Agreement for the Banking Industry are applicable.

In addition, the provisions of the pension regulations of Stichting Pensioenfonds ABP (average salary system with personal contribution) apply to the Executive Board members. The retirement age is linked to the State Pension age. No compensation is provided to Executive Board members if the retirement age (statutory/for tax purposes) is raised further.

The employment contracts with Executive Board members specify appointment for a four-year period, with the term of the employment contract matching the period of appointment. This provision does not apply to individuals who are proposed for appointment from within BNG Bank and who already have a permanent contract.

No other severance payments than those provided for by the Dutch Work and Security Act (Wet werk en zekerheid) are agreed with Executive Board members. The severance pay will consequently never exceed the amount of the transition payment.

Deviation from the upper limit for remuneration and the other employment terms and conditions is only possible with the approval of the shareholders, with due regard for the provisions in Article 8, paragraph 4 of the Articles of Association of BNG Bank.

ACHIEVEMENT OF TARGETS FOR EXECUTIVE BOARD PERFORMANCE-RELATED REMUNERATION IN 2017

Two Executive Board members are entitled to performance-related remuneration for 2017. The targets set for this remuneration consist of quantitative and qualitative targets, which are weighted as indicated on the next page. At least 50% of the performance-related remuneration is based on non-financial criteria. If the quantitative objectives are met 'on target', 70% of the maximum variable remuneration linked to those targets is paid.

PERFORMANCE TARGETS 2017		2017
	WEIGHTING	ACHIEVEMENT
QUANTITATIVE TARGETS		
Market share target for solvency-free long-term lending to local authorities, housing associations and healthcare institutions	10%	10%
Combined production and margin target for other lending	10%	10%
Return	15%	15%
Leverage ratio	15%	15%
QUALITATIVE TARGETS		
Progress of Data Insight long-term programme	10%	7%
Improved positioning among stakeholders of BNG Bank as a sustainable bank	10%	10%
Improved credit process subject to solvency requirements	10%	6%
Further improvement of interest rate risk framework	10%	7%
Cost control and cost-conscious operations	10%	10%
TOTAL	100%	90%

Following the Remuneration Committee's advice, the Supervisory Board determined the degree to which the 2017 variable remuneration targets had been met by the Executive Board members and that the corresponding payout percentage would be 90% (2016: 88.5%). The Remuneration Committee ascertained that the pay ratios in the organisation were taken into consideration and that the possible outcomes of the variable (short- and long-term) remuneration elements for the remuneration of individual Executive Board members were analysed when defining and implementing the remuneration policy. When determining the amount and structure of the remuneration, such aspects as the development of the bank's results and non-financial indicators were also taken into account, with due regard for the risks for the organisation. The Supervisory Board considers the payout percentage to be fair and did not use its discretionary authority to adjust the variable remuneration. In 2017, the Supervisory Board also concluded that there was no reason to consider exercising its authority to reclaim any variable remuneration awarded for previous years.

RESULTS OF THE 2017 REMUNERATION POLICY AND OUTLOOK FOR THE COMING YEARS

For an overview of the Executive Board members' remuneration, see the Related parties section of the consolidated financial statements. No shares or options are awarded. The level of the 2017 variable remuneration (90% of 20% fixed) falls within the pre-approved range of 0% to 20% of the fixed remuneration.

BNG Bank has a new Board Chair with effect from 1 January 2018. Her remuneration consists solely of fixed remuneration in the amount of EUR 301,000 (no variable remuneration and no pension compensation), in line with the policy adopted by the shareholders.

COLLECTIVE TARGETS SET FOR THE EXECUTIVE BOARD IN 2018

The Supervisory Board has decided with effect from 2018 to assess all the members of the Executive Board based on a set of targets for the Executive Board as a collective body and a set of individual targets, without attaching the payment of variable remuneration to those targets. These targets for the Executive Board as a collective body consist of combined market share and margin targets for solvency-free long-term lending to local authorities, housing associations and healthcare institutions, as well as a combined production and margin target for other lending as set out in the 2018 Annual Plan. Targets have also been formulated for the development of the long-term lending portfolio and the interest result as a percentage of equity. Further to the quantitative targets, qualitative targets also have been set. For 2018, these targets concern agreements on the progress of the Data Insight long-term programme, improved positioning among stakeholders of BNG Bank as a sustainable bank, implementation of the 2018–2020 HR strategy, implementation of proposed changes in the business processes as well as cost control and cost-conscious operations, among other things. In early 2019, the Supervisory Board will assess the extent to which these targets have been met and include this assessment in its appraisal of the performance of the Executive Board members.

PAY RATIOS

The salary of the Executive Board Chair in 2017 was 6.19 times the average salary of BNG employees (2016: 6.59 times). The ratio is calculated on the basis of the fixed and variable remuneration, including all pension contributions. Variable remuneration granted in the year under review related to the previous financial year. The paid and conditionally awarded variable remunerations have been included in the calculations; the actual payments of the conditionally awarded variable remunerations for 2012 and 2013 have not been included. The salary of the Executive Board Chair in 2017 fell by 0.1%, while the average salary (this relates to labour costs) of BNG employees rose by 6.4%.

REMUNERATION POLICY FOR EMPLOYEES

With effect from 1 January 2017, the primary remuneration of BNG Bank employees consists of the following components, depending on their position.

	FIXED	2017	
		VARIABLE	
		PERFORMANCE-RELATED REMUNERATION	PROFIT DISTRIBUTION
Managing directors	Yes	No	No
Department heads	Yes	No	Yes
Other employees	Yes	No	Yes

The fixed component of the remuneration consists of 12 times the monthly salary plus 8% holiday allowance and, where applicable, compensation for a 40-hour working week. Employees, with the exception of managing directors and department heads, receive a 13th-month payment. Increases under the Collective Labour Agreement for the Banking Industry and one-off benefits apply.

Performance-related remuneration was abolished for employees with effect from 1 January 2017. The total variable remuneration for employees (consisting of a profit distribution and a discretionary bonus in exceptional cases) may never exceed 20% of the fixed remuneration. Where this limit would be exceeded, capping will be applied.

All the managing directors/department heads and some specific job holders are designated as Identified Staff. Their variable remuneration by way of profit distribution is subject to a stringent control regime (in this case, the conditional grant of 40% of this remuneration) where it amounts to more than one month's salary and/or more than EUR 10,000.

Employees do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

The provisions of the pension regulations of Stichting Pensioenfonds ABP (average salary system) apply to the fixed remuneration and the profit distribution granted to employees. This fixed remuneration paid is pensionable up to the maximum amount permitted for tax purposes.

REMUNERATION POLICY FOR THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was unanimously approved by the Extraordinary General Meeting of Shareholders in 2016, effective from 1 January 2017. The new policy applies to the period from 1 January 2017 to 31 December 2021, inclusive. This policy is published on bngbank.nl.

The remuneration of the Supervisory Board can rise by the same percentage as the increases under the Collective Labour Agreement from 2017. With effect from 1 January 2017, the Supervisory Board's committee structure changed. The Market Strategy Committee was dissolved and the Audit & Risk Committee was divided into an Audit Committee and a Risk Committee. The remuneration policy has been amended accordingly.

The remuneration policy for the Supervisory Board is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the social nature of the bank, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, and the time required as well as aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

The remuneration amounts to EUR 24,300 a year for Supervisory Board members and EUR 35,300 a year for the Chair. Audit Committee and Risk Committee members receive an annual allowance of EUR 6,000 in addition to their remuneration. Members of the Selection and Appointment Committee as well as the Remuneration Committee receive an annual allowance of EUR 1,500 in addition to their remuneration.

Supervisory Board members additionally receive a fixed expense allowance of EUR 1,000 a year. This allowance is increased by EUR 500 for members of the Audit Committee and the Risk Committee, or by EUR 250 for members of the Selection and Appointment Committee/HR Committee as well as the Remuneration Committee.

Works Council

WORKS COUNCIL

The composition of the Works Council from 1 March 2016 is as follows:

S.D.P. (SELMA) HUIZER CHAIR
F.B. (FRAN) BOON SECRETARY
M.G.J. (MASCHA) BALTUS-PFENNINGS
M.E. (MARJOLEIN) HOFSTEE
E.J. (ERIC) VAN MASTRIGT (FROM 13 JUNE 2017)
T.E.T. (TERRENCE) ROEP
V.G.W.H (VICTOR) TJIA
A.T.B. (ARNOUD) TROE (UNTIL 17 MAY 2017)
L.C. (LEO) VALKENBURG
F.W.A. (FELIX) ZWETSLOOT

100%
 **green**
 result

CHANTAL PUTKER OF BNG BANK NEXT TO THE PANELS ON RIJSOORD FOOTBALL CLUB'S PITCH

Softs Points at Rijsoord football club

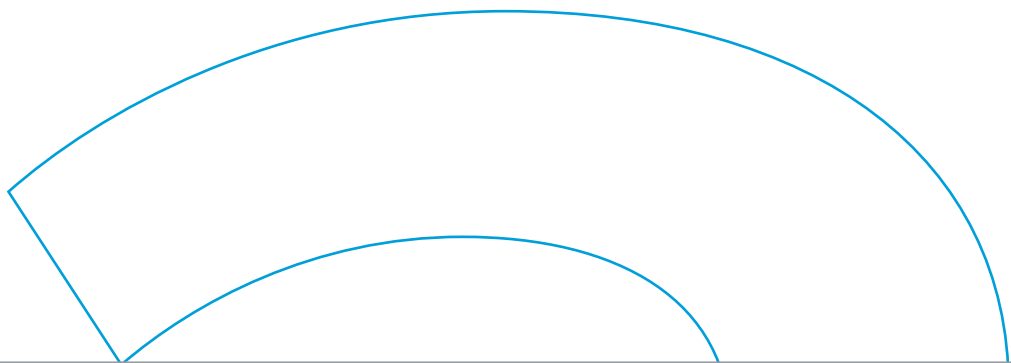
Softs Points are now a permanent feature on the perimeter of Rijsoord' football club's pitch. With those panels, the club is accomplishing three objectives at once: they can be used as advertising hoarding, solar panels and panels that absorb polluted air, combined in a single system.

The municipality of Ridderkerk and the Sliedrecht firm Softs are helping local sports associations to save energy and become more sustainable with these panels. Softs stands for 'Surface of Things' and refers to a three-sided rotating chassis covered with triangular panels which can be used for compensation, communication or

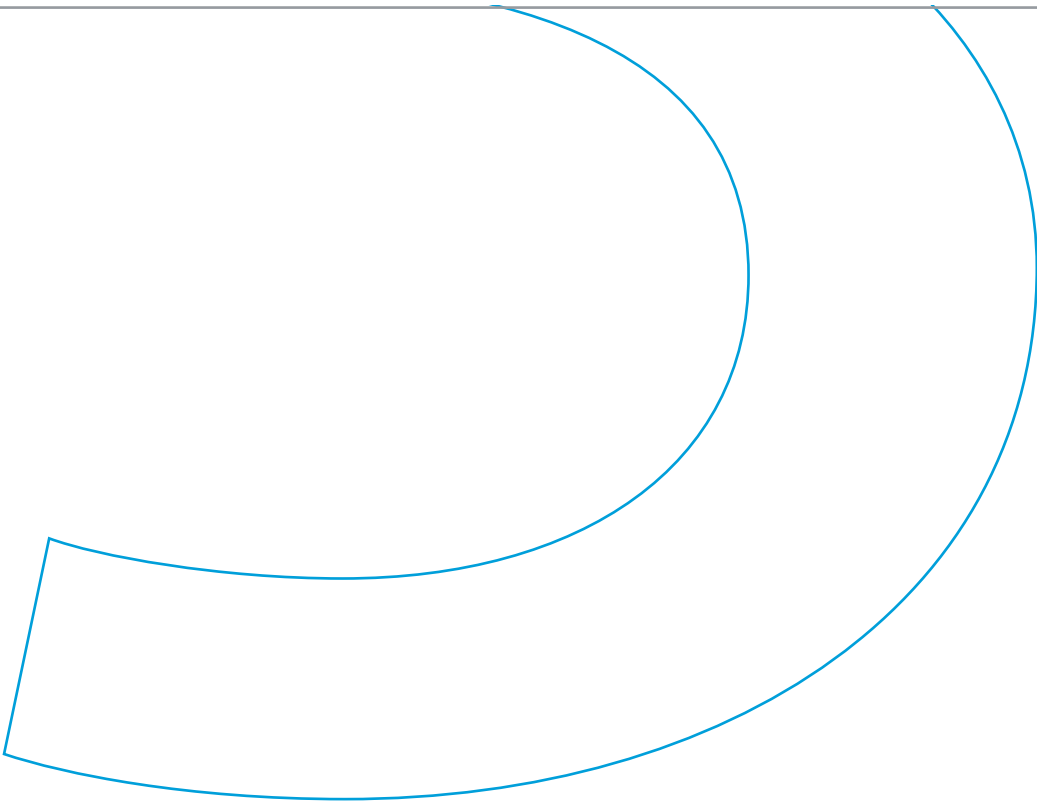
environmental applications. The inside of the chassis can be deployed as well. Softs Points can also be installed on building facades or on roofs.

REDUCING ENERGY COSTS

Energy sponsoring means that social organisations receive sponsorship which enables them to implement measures without having to make investments themselves. This helps them to reduce energy costs and become more sustainable. Rijsoord football club can use the system as advertising hoarding during matches. When the sun shines, the panels generate energy. On cloudy days, they are rotated and will absorb polluted air, for example. Softs Points have a text display feature which means they can be used for technical and match training purposes for Rijsoord's youth players.



Report of the Supervisory Board



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Foreword by the Chair

In 2017, the Dutch economy recovered further from the deep recession that characterised the first half of this second decade. Nevertheless, this recovery has not yet fully translated into a corresponding increase in social investments. Municipalities were cautious owing to the budgetary uncertainties produced by the decentralisation of care tasks, including youth care tasks, while a recovery of the investment level in the Public Housing sector also failed to materialise despite the low interest rate resulting from the ECB's liberal monetary policy.

Nonetheless, the Supervisory Board looks back on the past year with satisfaction. BNG Bank is continuing to achieve its aim to be a committed partner for sustainable initiatives, including the introduction of the Energy Transition Financing Facility (ETFF) in collaboration with the Ministry of Economic Affairs and Climate Policy. This way, the bank is contributing to the facilitation of the energy transition to more sustainable forms of energy use. This contribution is in line with the bank's aim of contributing as a committed partner to the minimisation of the costs inherent in providing public authorities and public sector institutions with funding. Despite persistently low interest rates, the bank also posted a good result as well as a leverage ratio amounting to 3.5% at the end of 2017, which means that BNG Bank will meet the standard that we expect to be applied.

The year under review also saw the recruitment of a successor to Carel van Eykelenburg, who resigned as at 1 January 2018. The Supervisory Board is very grateful to him for the substantial contribution which he made in keeping BNG Bank on track in one of the largest financial and economic crises that our country has ever known. Under his leadership, the bank remained open for business, financing public investments and, partly thanks to its solid and reliable reputation and high ratings, continued to be able to raise funds on the international capital market. The Supervisory Board has every confidence that his successor, Gita Salden, will manage to continue along these successful lines. The Board also looked for a successor to Petri Hofsté, who did not wish to be considered for a second term.

In addition to the aforementioned topics, the Supervisory Board also paid particular attention to following up on suggestions, conditions and requirements that resulted from external supervision during its meetings in 2017. It also dealt comprehensively with strategic questions and discussed the results of the external self-evaluation as well as the review of the Corporate Governance Code. Due to the wish of the Supervisory Board to have a broader focus on the HR domain, the Selection and Appointment Committee of the Supervisory Board was converted into an HR Committee in the second half of 2017.

As in all previous years, the members of the Board also convened several times for what are known as ‘deep dives’, where specialist employees of BNG Bank discussed developments within their areas of responsibility with members of the Board. They also met for permanent education sessions, at which external experts as well as internal employees discussed relevant matters with the Board. The Supervisory Board finds such sessions extremely useful as a means of ensuring that it fulfils its roles as supervisory body, employer and sounding board/adviser of the Executive Board. The formal and informal discussions foster an open and constructive atmosphere within the Board, with all members participating in the discussions and feeling free to challenge the Executive Board to deal adequately with the issues which face the financial world and the bank.

The Supervisory Board would like to thank the Executive Board and all employees of BNG Bank for the contribution that they made in 2017 to the bank’s mission and objectives, namely minimising the costs of social provisions for the public, being a committed partner for public authorities and public sector institutions, and providing banking services for the benefit of public authorities.

On behalf of the Supervisory Board,

MARJANNE SINT
CHAIR

The Hague, 9 March 2018

Composition of the Supervisory Board and Committees

COMPOSITION OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board discussed the preferable future size of the Supervisory Board, following a recommendation by the ECB and the most recent self-evaluation of the Supervisory Board. The Supervisory Board decided to reduce the size of the Supervisory Board in stages from nine to seven members. The Supervisory Board considers seven members sufficient to ensure a properly functioning Board.

Petri Hofsté stepped down as a Supervisory Board member with effect from the General Meeting of Shareholders of BNG Bank held on 20 April 2017. The HR Committee of the Supervisory Board considered the appropriateness of filling the resulting vacancy in the Supervisory Board, bearing in mind the Board's wish to limit its size. Although the Supervisory Board will be reduced in size in the coming years, the decision was nonetheless made to fill this vacancy. It is desirable to guarantee the presence in the Supervisory Board and the Risk Committee of specific expertise and management experience in the fields of banking after the departure of Petri Hofsté. Diversity objectives were also taken into account when filling the vacancy. The appointment of Marlies van Elst signals the Supervisory Board's success in finding a candidate who meets the requirements of the job profile as well as the diversity targets. Her appointment ensures that the Supervisory Board meets the target of at least 30% female representation in the Board.

Marjanne Sint's first term of office also ended in 2017. Preparatory work for her reappointment was carried out by the HR Committee. During the General Meeting of Shareholders held on 20 April 2017, Marjanne Sint was reappointed as a member of the Supervisory Board. Marjanne Sint will continue to fulfil the role of Chair of the Supervisory Board during her second term of office. Jan Nooitgedagt remains as Vice-Chair of the Supervisory Board.

The composition of the Supervisory Board in 2017 is shown on the next page.

NAME	GENDER	DATE OF BIRTH	NATIO- NALITY	DATE OF INITIAL APPOINT- MENT	ELIGIBLE FOR RE- APPOINT- MENT	DUE TO STEP DOWN
Marjanne Sint, Chair	F	1949	NL	20/08/2012		2021
Jan Nooitgedagt, Vice-Chair	M	1953	NL	23/04/2012		2020
Kees Beuving	M	1951	NL	24/04/2014	2018	2022
Lucas Bolsius	M	1958	NL	24/04/2014		2018
Theo Bovens	M	1959	NL	23/04/2012		2020
Johan Conijn	M	1950	NL	01/01/2016	2020	2024
Petri Hofsté (until 20 April 2017)	F	1961	NL	22/04/2013		2017
Jantine Kriens	F	1954	NL	24/04/2014	2018	2022
Jan van Rutte	M	1950	NL	23/11/2015	2020	2024

In accordance with Article 13 of the Articles of Association, Supervisory Board members are eligible for reappointment in the first General Meeting of Shareholders to be held after a period of four years has elapsed since the last appointment. Supervisory Board members may be appointed for two four-year terms of office, in accordance with the respective provisions in the 2016 Corporate Governance Code.

BRIEF CURRICULUM VITAE OF SUPERVISORY BOARD MEMBERS

The current or most recent principal position held by each member of the Supervisory Board is listed below. Additional positions held by the Supervisory Board members are only shown insofar as they are additional positions, the number of which is subject to limitation under the CRD IV regulations. A register containing all the additional positions held by the Supervisory Board members is published on BNG Bank’s website. All the Supervisory Board members are independent within the meaning of best-practice provisions 2.1.7, 2.1.8 and 2.1.9 of the Corporate Governance Code.



MARJANNE SINT, CHAIR OF THE SUPERVISORY BOARD
Marjanne Sint was formerly Chair of the Executive Board of Isala Clinics in Zwolle. She serves as Chair of the NL Healthcare Supervisory Board and as a member of the De Friesland/FBTO Zorgverzekeringen Supervisory Board.



JAN NOOITGEDAGT, VICE-CHAIR OF THE SUPERVISORY BOARD
Jan Nooitgedagt was formerly Chief Financial Officer and Executive Board member of Aegon. He is Chairman of the TMG Supervisory Board and a Supervisory Board member of Rabobank and Robeco Groep.

**KEES BEUVING**

Kees Beuving was formerly Executive Board Chair of Friesland Bank. He is also Chair of the Supervisory Board of BPF BouwInvest.

**LUCAS BOLSIOUS**

Lucas Bolsius is mayor of the Municipality of Amersfoort.

**THEO BOVENS**

Theo Bovens is King's Commissioner (Governor) for the Province of Limburg.

**JOHAN CONIJN**

Johan Conijn is professor by special appointment of the Housing Market at the University of Amsterdam and Director of Real Estate Management at Ortec Finance. He serves as a member of the Investment Committee of Amvest Residential Core Fund.

**JANTINE KRIENS**

Jantine Kriens is Chair of the VNG Executive Board.

**JAN VAN RUTTE**

Jan van Rutte was formerly Executive Board Chair at Fortis Bank Nederland and CFO in the Executive Board of ABN AMRO Groep. He serves as Chair of the Supervisory Board of Volksbank and as a member of the Supervisory Board of ORMIT and PGGM.

COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES AND ATTENDANCE

On 1 January 2017, following a recommendation by the ECB/DNB, the Audit & Risk Committee of BNG Bank’s Supervisory Board was split into two separate committees: the Audit Committee and the Risk Committee. After the split of the Audit & Risk Committee, former Chair of the Audit & Risk Committee Jan Nooitgedagt was appointed as Chair of the Audit Committee. Petri Hofsté, member of the Audit & Risk Committee, was appointed as Chair of the Risk Committee. Following the departure of Petri Hofsté as Supervisory Board member and hence as Chair of the Risk Committee, Johan Conijn took over the duties of the Chair of the Risk Committee in the first instance. After completion of his screening by the ECB/DNB, he is installed as the new Chair of the Risk Committee. In the second half of 2017, Marjanne Sint moved from the Audit Committee to the Risk Committee. In addition, it was decided to remodel the Selection and Appointment Committee into an HR Committee with a broader focus on HR affairs.

The composition of each committee, including the meeting attendance record of the Supervisory Board members, is shown below. The average attendance rate in Supervisory Board meetings and meetings of the Supervisory Board committees, PE sessions and deep dives in 2017 was 95%.

	31-12-2017				
SUPERVISORY BOARD MEMBER	SUPER-VISORY BOARD	AC	RC	HRC	REMC
Marjanne Sint Chair of the Supervisory Board SAC/HRC Chair	6/6	2/2	2/2	7/7	2/2
Jan Nooitgedagt Vice-Chair of the Supervisory Board AC Chair	5/6	3/4	4/5		
Kees Beuving ReMC Chair	5/6	4/4		7/7	2/2
Lucas Bolsius	6/6				
Theo Bovens	3/6				
Johan Conijn	5/6		5/5		
Petri Hofsté (until 20 April 2017)	2/2		2/2		
Jantine Kriens	5/6			7/7	2/2
Jan van Rutte	6/6	4/4			
Average attendance	87%	94%	95%	100%	100%

- AC: Audit Committee
- RC: Risk Committee
- HRC: HR Committee
- REMC: Remuneration Committee
- SAC: Selection and Appointment Committee

Supervisory Board meetings

WORK PRACTICES

A broad range of matters presented by the Executive Board are critically assessed and discussed by the Supervisory Board. The Supervisory Board regularly discusses the strategy, its implementation and the progress made with its implementation, as well as the main associated risks. The increased competition that BNG Bank is facing was a key topic of those discussions in 2017. The Supervisory Board also fully endorses BNG Bank's aim to act as a committed partner for a more sustainable Netherlands, which is why the progress made with sustainability initiatives is regularly discussed during Supervisory Board meetings. In addition to strategic and sustainability matters, the Supervisory Board also paid particular attention to issues arising as a result of external supervision, the results of the external self-evaluation, the progress made with projects and the review of the Corporate Governance Code, among other things. It will step up discussions about HR and strategic developments in the public sector over the coming period.

The atmosphere within the Supervisory Board is open and constructive, with every member participating in discussions and feeling free to contribute to the challenges which face the financial world. All Supervisory Board members have extensive knowledge and experience of the relevant business units of BNG Bank, the markets within which the bank operates and the specific characteristics of public stakeholders.

The Supervisory Board held six regular meetings in 2017. The Supervisory Board meetings are also attended by Executive Board members and, when invited, the external auditor. A private session, which is only attended by members of the Supervisory Board, is held prior to each Supervisory Board meeting.

In the Supervisory Board meetings, a written or oral report is presented of the Committee meetings that are held prior to the regular meetings of the Supervisory Board. Meeting documents of the Committees that are of relevance to the Supervisory Board are also listed on the agenda of the Supervisory Board meetings. Specific matters falling within the scope of responsibility of a Committee are discussed in greater depth in that Committee. Where the approval of the Supervisory Board is required, the Committee concerned gives advice to the Supervisory Board.

SUBJECTS DISCUSSED IN 2017

STRATEGY

The Supervisory Board supervises the manner in which the Executive Board implements the long-term value creation strategy. The strategy, the execution, and progress in implementing the strategy and the associated main risks are therefore discussed on a regular basis in the Supervisory Board meetings.

In 2015, the strategy was once again recalibrated ('BNG Bank+') and several new focal points were introduced: closer to the client and shareholder, sustainability, and knowledge sharing and flexibility. This process took place against the background of the trends and developments considered relevant for the bank's operations. In 2017, the manner in which BNG Bank implements its strategy was reported with reference to the BNG Bank Annual Plan. Also in this context, the main developments which BNG Bank will face in the coming years as well as the resulting opportunities and threats for BNG Bank were discussed on several occasions in the Supervisory Board in 2017. A group of employees was invited in 2017 to highlight developments which according to them presented opportunities for the bank's business as well as to list developments which posed a threat to the business. Their responses served as a basis for compiling a list of threats and opportunities, which were then discussed in the Supervisory Board.

SUSTAINABILITY

The Supervisory Board endorses BNG Bank's ambition to be a committed partner for a more sustainable Netherlands. To this end, the Supervisory Board welcomed the initiatives that were launched with the aim of promoting sustainability among BNG Bank's clients. It is BNG Bank's role to support government policy in this regard. BNG Bank is actively engaged in the Energy Agreement and is a major financier in relation to it. The Energy Transition Financing Facility (ETFF) is an example of how BNG Bank can contribute to ensuring that innovative sustainability projects qualify for financing. Through the ETFF, the Ministry of Economic Affairs and Climate Policy stimulates investments in 'still maturing' energy transition market segments such as geothermal energy, energy saving, energy storage and biomass. BNG Bank contributes to this initiative by providing subordinated ETFF loans. The progress of such initiatives is regularly discussed in the Supervisory Board.

The structure and functioning of the BNG Sustainability Fund was discussed in the Supervisory Board in 2017. This initiative is prompted by the increasing demand among municipalities to fund small-scale sustainable projects. The initiatives concerned are those in which there is no direct role for municipalities but which are in line with municipal sustainability policies. Funding is conditional on local authority and/or provincial support for the initiatives. The Fund supplements existing regional sustainability funds. It helps municipalities and provinces to achieve their objectives for a sustainable and future-proof society. This initiative demonstrates how BNG Bank is implementing its strategy and reinforcing its identity as a committed partner for a more sustainable Netherlands. The first loans have already been granted.

CORPORATE GOVERNANCE CODE

In 2017, the Supervisory Board discussed the extent to which BNG Bank complies with the provisions of the revised 2016 Dutch Corporate Governance Code and determined whether provisions will be applied or will be interpreted in case of non-compliance. Details on compliance with the Corporate Governance Code are given in the 'Governance' section of this annual report.

EVALUATION OF THE SUPERVISORY BOARD

In March 2017, the Supervisory Board discussed the outcome of the annual evaluation of the Board. This time, the evaluation was performed under external supervision. Among other things, the discussions centred on how the performance of the Supervisory Board as well as the dialogue between the Supervisory Board and the Executive Board could be further strengthened, how strategic issues can be given appropriate attention, and how the Supervisory Board's roles as supervisor, adviser and employer can be reinforced. The overall picture which emerged from this self-evaluation is extremely positive and provides encouragement for the Supervisory Board and Executive Board to continue their present approach. There is open dialogue and constructive cooperation within the Supervisory Board as well as between the Supervisory Board and the Executive Board. The main recommendation from the evaluation concerns giving further substance to the Board's advisory role alongside its supervisory role. The Supervisory Board will consider its opportunities to strengthen its role as a sparring partner and adviser to the Executive Board further, with a particular focus on strategic issues, organisational development, culture, sustainable employability and diversity. The Supervisory Board intends to give specific focus to these issues in its meetings and will additionally pay more attention to lessons learned. It will determine which subjects discussed at the Committee level should also be discussed in Supervisory Board meetings in order to avoid duplication and to ensure that the time available to the Supervisory Board and the Executive Board is spent effectively. In addition, the Supervisory Board wishes to be involved in strategy-making at an early stage and to challenge the Executive Board in that regard through an open discussion, thereby increasing the Supervisory Board's actual impact on the bank's strategy.

EVALUATION OF THE EXECUTIVE BOARD

In 2017, following preparatory work carried out by the HR Committee and discussion in the Supervisory Board, the evaluation of the Executive Board took place. During this evaluation, the assessment criteria set by the Supervisory Board for 2017 were used in the annual performance interviews with the Executive Board. In the opinion of the Supervisory Board, the evaluation of the Executive Board resulted in a positive outcome. The Supervisory Board has decided to evaluate all members of the Executive Board on the basis of several objectives for the Executive Board as a collective body and on a number of individual objectives with effect from 2018. Further information on this procedure is included in the Remuneration Policy in the 'Governance' section.

PERMANENT EDUCATION AND 'DEEP DIVES'

Supervisory Board and Executive Board members complete a permanent education (PE) programme each year. The programme structure was identical to that in previous years. Three PE sessions were organised in 2017 and were attended by the members of the Supervisory Board, members of the Executive Board and directors of BNG Bank. PE sessions with external guest speakers were organised around the themes 'Funding the Dutch economy' and 'The investment capacity of public authorities'. As a result of the ECB review of BNG Bank's IT outsourcing, a visit to the party to whom IT has been outsourced was organised on the

recommendation of the Supervisory Board. During this visit, the Supervisory Board was informed about the details of the outsourced activities and the way in which they are managed. The visit also offered an opportunity to address the subject of 'Fintech' in the context of permanent education.

In addition to the PE sessions, four 'deep dive' sessions were organised for the Audit Committee and the Risk Committee, which were also attended by other members of the Supervisory Board and the members of the Executive Board. In 2017, deep dives were organised on the model used by BNG Bank for pricing loans, the implementation by BNG Bank of International Financial Reporting Standard 9 (IFRS 9), the framework used by BNG Bank for calculating the interest rate risk and IT outsourcing as referred to above.

CONTACTS WITH STAKEHOLDERS

In addition to its role in consulting with and advising the Executive Board, the Supervisory Board maintains contacts with other stakeholders including the Works Council, shareholders, the external regulator, the external auditor and management. Members of the Supervisory Board attended three consultative meetings with the Works Council in 2017. The Supervisory Board and the Executive Board additionally meet with the Works Council once a year during a joint lunch highlighting certain issues. In 2017, the Dutch general election of 15 March and sustainable employability among staff were discussed. The Supervisory Board sees the contacts with the Works Council as constructive, and appreciates the open dialogue between the Supervisory Board, the Executive Board and the Works Council.

Among other things, the Supervisory Board's contacts with the shareholders are conducted via the General Meeting of Shareholders, in which the Supervisory Board renders account for its supervision. The annual General Meeting of Shareholders was held on 20 April 2017. Regular items on the agenda included the approval of the 2016 financial statements, the approval of the proposed dividend for 2016, the grant of discharge to each of the Executive Board and Supervisory Board members for their duties during the 2016 financial year, the vacancy which arose in the Supervisory Board in connection with the departure of Petri Hofsté and the reappointment of Marjanne Sint as member of the Supervisory Board. All the items on the agenda requiring approval were approved by the General Meeting of Shareholders. Discussions were held between the Ministry of Finance, BNG Bank's primary shareholder and the Chair of the Supervisory Board on a quarterly basis in 2017.

In addition to discussing supervisory matters in the Supervisory Board, the Chairs of the Supervisory Board, the Audit Committee and the Risk Committee each hold annual consultations with the external regulator. Members of the Supervisory Board also have meetings with the bank's senior management. The Supervisory Board, the Audit Committee and the Risk Committee involve individuals from the management layer below the Executive Board in specific agenda items and in the context of its own professional development. Finally, the Supervisory Board maintains regular contacts with the external auditor as well as the Internal Audit Department (IAD) and oversees the performance of the external auditor.

In the Supervisory Board's opinion, no situations occurred in 2017 that involved conflicting interests on the part of Executive Board members, Supervisory Board members, shareholders and/or the external auditor of material significance to the company and/or the relevant Executive Board members, Supervisory Board members, shareholders and/or the external auditor.

Supervisory Board Committees

AUDIT COMMITTEE

The Audit Committee supports the Supervisory Board in monitoring the activities of the Executive Board and prepares decision-making on financial reports, internal control systems, internal audit and the external auditor.

The Audit Committee held four regular meetings in 2017. In addition, several other Supervisory Board members attended the Audit Committee meetings. The Audit Committee meetings are also attended by Executive Board members, the Manager Internal Audit Department (IAD), the Manager of Finance & Control and the external auditor. The Audit Committee holds a private session with the external auditor and the Manager IAD prior to a regular meeting of the Audit Committee. The Chair of the Audit Committee consults with the Manager IAD twice a year.

In principle, the Audit Committee meets one week prior to a regular meeting of the Supervisory Board. The Audit Committee reports in writing to the Supervisory Board on the consultations and findings. In addition, the Chair of the Audit Committee provides oral feedback in the Supervisory Board meetings, while the Audit Committee meeting documents which are of relevance to the Supervisory Board are also placed on the agenda of the Supervisory Board meetings.

The Audit Committee discussed the following regular subjects in 2017:

- 2016 financial statements and annual report;
- 2017 interim financial statements;
- 2017 audit opinion, including key audit matters;
- material findings in respect of the financial reporting;
- 2016 IAD management letter and 2018 IAD audit plan;
- external auditor's reports;
- the effectiveness of the internal and external audit process;
- quarterly reports with key figures, developments and outlook in relation to clients, profitability, solvency, capital, liquidity and funding.

In addition to addressing the regular subjects, the Audit Committee focused attention on the progress of implementing the aforementioned International Financial Reporting Standard 9 (IFRS 9) in 2017. In the Audit Committee's opinion, the implementation of IFRS 9 in BNG Bank went well.

RISK COMMITTEE

The Risk Committee supports the Supervisory Board in monitoring the activities of the Executive Board and prepares decision-making on risk-related matters such as risk policy and risk management, compliance and the risk analysis of the remuneration policy.

The Risk Committee held four regular meetings and one extraordinary meeting in 2017. The extraordinary meeting was convened to consider the documentation and the result of the 2017 International Capital Adequacy Assessment Process (ICAAP), the International Liquidity Adequacy Assessment Process (ILAAP), and the Supervisory Review and Evaluation Process (SREP). In addition, several other Supervisory Board members attended the Risk Committee meetings. The Risk Committee meetings are also attended by Executive Board members, the Manager IAD and the Manager Risk Control. The Chair of the Risk Committee consults with the Manager Risk Management twice a year and with the Compliance Officer once a year.

In principle, the Risk Committee meets one week prior to a regular meeting of the Supervisory Board. The Risk Committee reports in writing to the Supervisory Board on the consultations and findings. In addition, the Chair of the Risk Committee provides oral feedback in the Supervisory Board meetings, while the Risk Committee meeting documents which are of relevance to the Supervisory Board are also placed on the agenda of the Supervisory Board meetings.

Every year, the Risk Committee discusses the effectiveness of the structure and functioning of the internal risk management and control systems as well as the material controls aimed at controlling strategic, operational, compliance and reporting risks. The following regular subjects were discussed in 2017:

- risk in quarterly reports related to credit, market, liquidity and operational risks;
- ECB matters such as risk-related letters, on-site inspections, findings and recommendations;
- 2016 Compliance report and the 2018 Compliance Annual Plan;
- risk appetite statement;
- 2018 recovery plan;
- remuneration policy.

The Risk Committee paid particular attention to the progress on the data quality project in 2017. Furthermore, an in-depth examination of operational and liquidity risks was undertaken, and the evaluation of the Compliance function was discussed.

HR COMMITTEE

In the second half of 2017, the Selection and Appointment Committee was remodelled into an HR Committee with a wider range of HR-related tasks, in order to reflect the Supervisory Board's commitment to the wide-ranging scope of its responsibilities as an employer and its wish to focus on a broad range of HR issues. The HR Committee's responsibilities include recruitment and selection of Supervisory Board and Executive Board members, preparatory work for the appointment or reappointment of Supervisory Board members, periodic evaluation of the Supervisory Board and the Executive Board as a whole, and assessment of the performance of individual Supervisory Board members and the members of the Executive Board. In this regard, the HR Committee prepares decision-making by the Supervisory Board. The HR Committee's range of tasks will be further elaborated and expanded in 2018, with culture, staff planning, staff remuneration policy, performance management, mobility and sustainable

employment, talent management, diversity policy and succession planning set to be important topics of discussion.

In 2017, the HR Committee held four regular meetings. An extraordinary meeting was convened three times; to discuss the progress in filling positions in the Supervisory Board and Executive Board. The HR Committee meetings are also attended by Executive Board members.

In principle, the HR Committee meets immediately prior to a regular meeting of the Supervisory Board. The Chair of the HR Committee gives an oral report to the Supervisory Board on the consultations and findings.

The HR Committee discussed the following regular subjects in 2017:

- Permanent Education programme for Supervisory Board and Executive Board members in 2017;
- Executive Board allocation of responsibilities;
- additional positions held by Executive Board members.

In 2017, the HR Committee paid particular attention to reconsidering the size of the Supervisory Board, filling the vacancy that arose due to the departure of Petri Hofsté and filling the vacancy for the position of Chair of the Executive Board. The HR Committee's activities in this regard included assessing the job profiles, fulfilling the recruitment and selection procedures, and holding interviews with prospective candidates. In filling the positions, the HR Committee and the Supervisory Board endeavoured to achieve a satisfactory and balanced composition of the Supervisory Board and Executive Board by adhering to the job profile and the diversity policy. Candidates meeting the set criteria were found for both positions.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for preparing the decisions on remuneration, with due regard for the long-term interests of the bank's shareholders, investors and other stakeholders. The remuneration of senior management who perform control functions is directly overseen by the Remuneration Committee as well.

The Remuneration Committee held two regular meetings in 2017. These Remuneration Committee meetings are also attended by Executive Board members. In principle, the Remuneration Committee meets prior to a regular meeting of the Supervisory Board. The Chair of the Remuneration Committee gives an oral report to the Supervisory Board on the consultations and findings.

SUBJECTS DISCUSSED IN 2017

The Remuneration Committee discussed the following regular subjects in 2017:

- report on 2016-2017 remuneration policy;
- assessment criteria for the Executive Board;
- 2016 remuneration report.

The remuneration policy for the Executive Board was adopted by the shareholders in 2016 and remained unchanged in 2017. The remuneration policy for senior management was updated and approved by the Supervisory Board on the recommendation of the Remuneration Committee. The remuneration policy is included in the 'Governance' section of this annual report.

In addition, the assessment criteria for the Executive Board were discussed by the Remuneration Committee and adopted by the Supervisory Board. The quantitative targets for 2017 were identical to those for 2016 in terms of number, subject and weighting factor. The proposed qualitative targets for 2017 match those for 2016 in terms of number and weighting factor. In terms of substance, the quantitative and qualitative targets are in line with the BNG Bank 2017 Annual Plan. A review of the assessment criteria for the Executive Board as carried out by the Risk Management department concluded that the targets do not include any undesirable elements from a risk perspective. The assessment criteria are used for the performance interviews with the Executive Board members. Finally, the 2018 assessment criteria for the evaluation of the Executive Board were discussed in 2017 and adopted by the Supervisory Board on the recommendation of the Remuneration Committee.

COLOPHON

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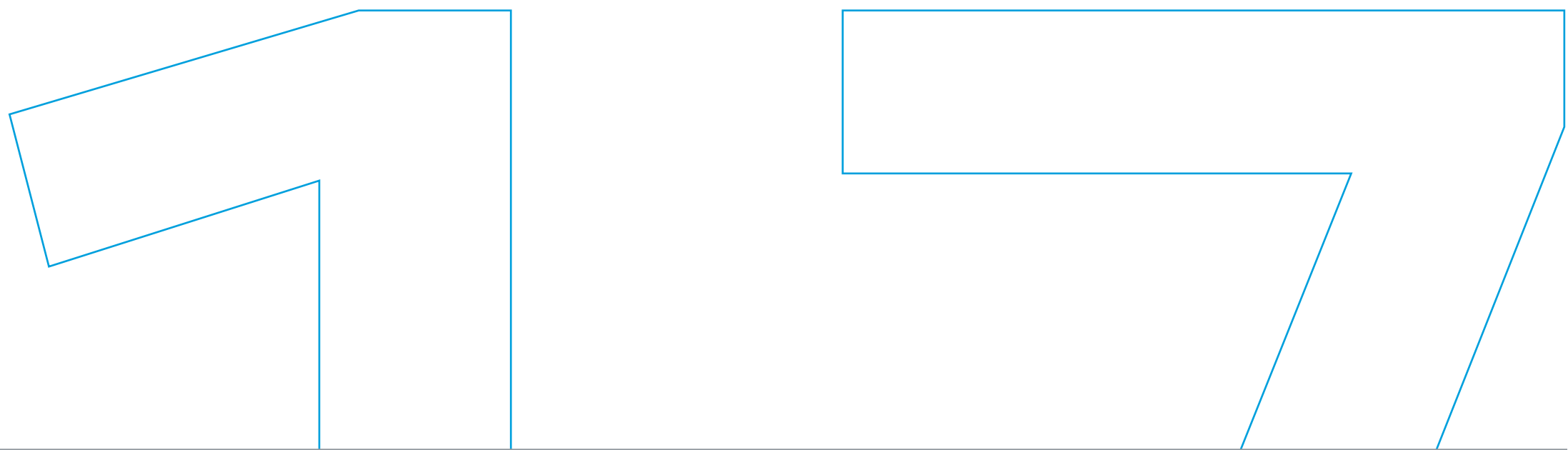
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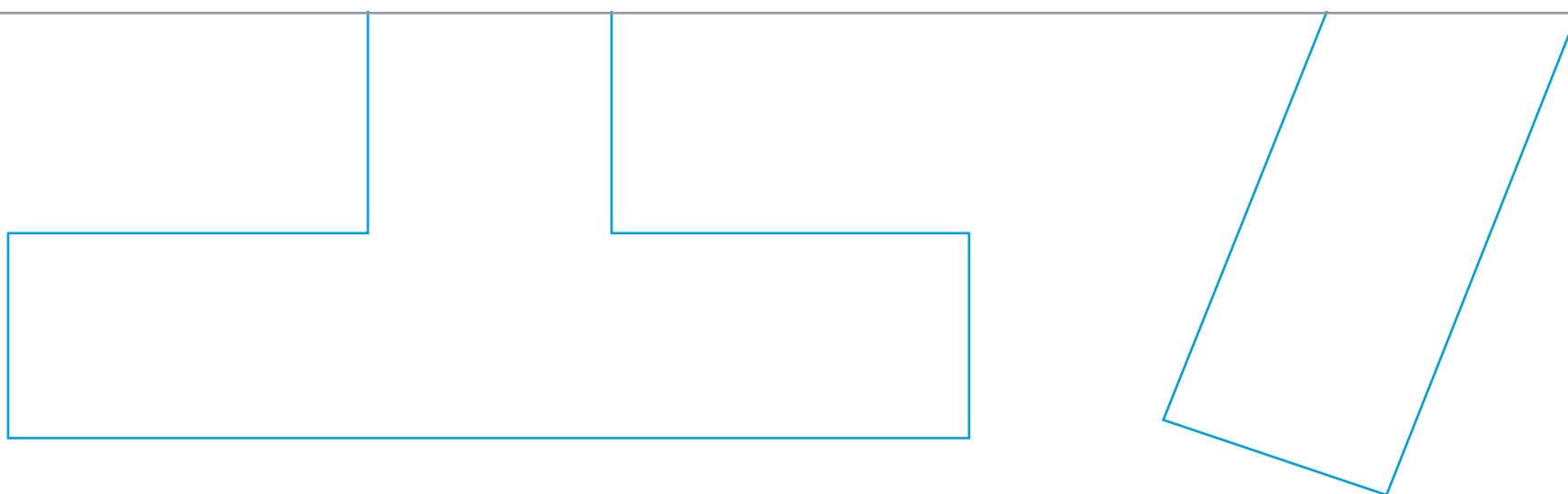
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Annual accounts

BNG Bank 2017



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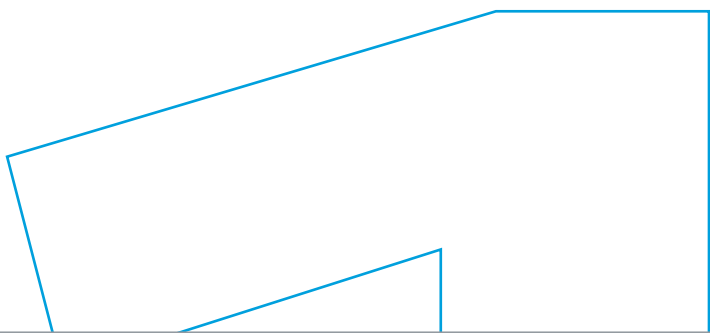
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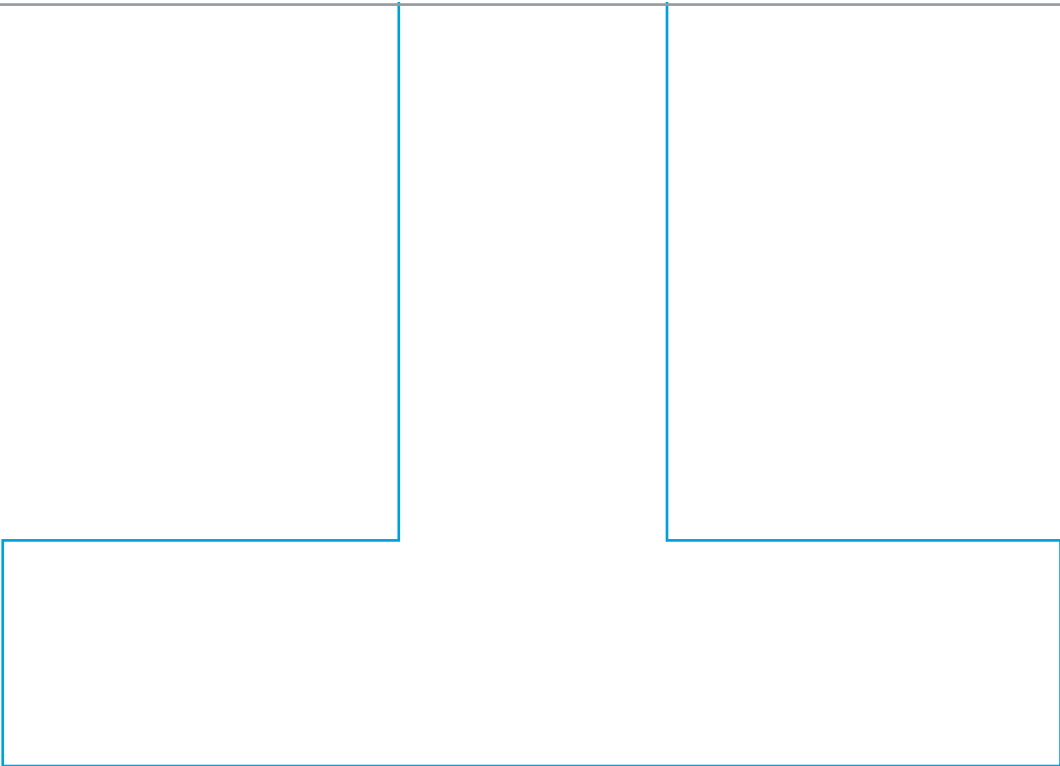
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		31/12/2017	31/12/2016
CONSOLIDATED BALANCE SHEET			
Amounts in millions of euros			
ASSETS	NOTE		
Cash and balances held with the central bank	1	2,996	6,417
Amounts due from banks	2	13,997	11,795
Financial assets at fair value through the income statement	3	2,006	2,350
Derivatives	4	8,982	15,412
Financial assets available-for-sale	5	14,110	15,437
Loans and advances	6	86,008	87,576
Value adjustments on loans in portfolio hedge accounting	7	11,813	14,894
Associates and joint ventures	8	47	46
Property & equipment	9	17	17
Other assets	10	19	56
Assets held-for-sale	11	30	–
TOTAL ASSETS		140,025	154,000
LIABILITIES			
Amounts due to banks	12	2,393	3,530
Financial liabilities at fair value through the income statement	13	944	1,190
Derivatives	14	21,870	24,780
Current tax liability	15	17	31
Deferred tax liability	15	173	116
Debt securities	16	104,127	112,180
Funds entrusted	17	5,472	7,557
Subordinated debt	18	31	31
Other liabilities	19	45	99
TOTAL LIABILITIES		135,072	149,514
Share capital		139	139
Share premium reserve		6	6
Revaluation reserve		268	275
Cash flow hedge reserve		193	3
Other reserves		3,221	2,961
Unappropriated profit		393	369
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	20	4,220	3,753
Hybrid capital	20	733	733
TOTAL EQUITY	20	4,953	4,486
TOTAL LIABILITIES AND EQUITY		140,025	154,000

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

		2017	2016
CONSOLIDATED INCOME STATEMENT			
Amounts in millions of euros			
	NOTE		
– Interest income	21	5,905	6,126
– Interest expense	22	5,470	5,721
Interest result		435	405
– Commission income	23	26	28
– Commission expense	24	3	4
Commission result		23	24
Result on financial transactions	25	181	118
Results from associates and joint ventures	26	2	4
Result from sales of assets held for sale	27	–	34
Other results	28	2	3
TOTAL INCOME		643	588
Staff costs	29	44	38
Other administrative expenses	30	26	26
Depreciations	31	2	2
TOTAL OPERATING EXPENSES		72	66
Impairments	32	–10	–32
Contribution to resolution fund	33	9	16
Bank levy	33	36	35
TOTAL OTHER EXPENSES		35	19
PROFIT BEFORE TAX		536	503
Taxes	15	–143	–134
NET PROFIT		393	369
– of which attributable to the holders of hybrid capital		18	4
– of which attributable to shareholders		375	365

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

NET PROFIT

Recyclable results recognised directly in equity

– Changes in cash flow hedge reserve:

– Unrealised value changes

– Realised value changes transferred to the income statement

– Changes in the revaluation reserve for financial assets available-for-sale

– Unrealised value changes

– Realised value changes transferred to the income statement

– Impairments through the income statement

– Impairments reversed through the income statement

TOTAL RECYCLABLE RESULTS

Non-recyclable results recognised directly in equity (after taxation):

– Movement in the Own Credit Adjustment (OCA) revaluation reserve for

Financial liabilities at fair value through the income statement (after taxation):

– OCA as at 1 January 2016

– Unrealised value changes in OCA

– Movement in actuarial results

TOTAL NON-RECYCLABLE RESULTS

RESULTS RECOGNISED DIRECTLY IN EQUITY

TOTAL

– of which attributable to the holders of hybrid capital

– of which attributable to shareholders

	2017	2016
	393	369
	232	-250
	-42	2
	190	-248
	55	23
	-47	-54
	–	1
	–	-39
	8	-69
	198	-317
	–	30
	-15	-6
	-15	24
	0	0
	-15	24
	183	-293
	576	76
	18	4
	558	72

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

CASH FLOW FROM OPERATING ACTIVITIES

Profit before tax	536	503
Adjusted for:		
– Depreciation	2	2
– Impairments	–10	–32
– Unrealised results through the income statement	–129	–53
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	–3,215	–993
– Changes in Loans and advances	1,191	1,435
– Changes in Funds entrusted	–1,748	554
– Changes in Derivatives	–843	1,418
– Corporate income tax paid	–157	–110
– Other changes from operating activities	–216	–275

TOTAL CASH FLOW FROM OPERATING ACTIVITIES

–4,589 **2,449**

CASH FLOW FROM INVESTING ACTIVITIES

Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–3,560	–2,565
– Investments in associates and joint ventures	–2	–2
– Property and equipment	–3	–3
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	287	687
– Financial assets available-for-sale	4,980	1,151
– Assets held for sale	0	77
– Investments in associates and joint ventures	0	3

TOTAL CASH FLOW FROM INVESTING ACTIVITIES

1,702 **–652**

Continued on next page

Continuation of previous page

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

CASH FLOW FROM FINANCING ACTIVITIES

Amounts received on account of:

- Hybrid capital
- Financial liabilities at fair value through the income statement
- Debt securities

Amounts paid on account of:

- Financial liabilities at fair value through the income statement
- Debt securities
- Subordinated debt
- Dividend distribution on hybrid capital
- Dividend distribution to shareholders

TOTAL CASH FLOW FROM FINANCING ACTIVITIES

NET CHANGE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 1 January

CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER

Cash and cash equivalents as at 31 December:

- Cash and balances held with the central bank
- Cash equivalents in the Amount due from banks item
- Cash equivalents in the Amount due to banks item

NOTES TO CASH FLOW FROM OPERATING ACTIVITIES

Interest income received

Interest expenses paid

2017

2016

0

310

11

0

222,828

151,495

–183

–546

–223,076

–149,745

–1

–1

–23

–8

–91

–57

–535

1,448

–3,422

3,245

6,421

3,176

2,999

6,421

2,996

6,417

3

4

0

0

2,999

6,421

5,735

5,870

–5,431

–5,537

304

333

**CONSOLIDATED
STATEMENT OF CHANGES
IN EQUITY**

Amounts in millions of euros

	SHARE CAPITAL	SHARE PRE- MIUM RESERVE	REVALU- ATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESER- VES	UN- APPRO- PRIATED PROFIT	EQUITY ATTRI- BUTABLE TO SHARE- HOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 01/01/2016	139	6	320	251	2,797	226	3,739	424	4,163
Net profit						369	369		369
Own Credit Adjustment (OCA) as at 1 January			30				30		30
Movement in OCA in 2016			-6				-6		-6
Unrealised results			-69	-248			-317		-317
TOTAL COMPREHENSIVE INCOME			-45	-248		369	76		76
Issue of hybrid capital					1		1	309	310
Dividend distribution to the bank's shareholders					-57		-57		-57
Dividend distribution to holders of hybrid capital					-6		-6		-6
Appropriation from previous year's profit					226	-226	-		-
BALANCE AS AT 31/12/2016	139	6	275	3	2,961	369	3,753	733	4,486
Net profit						393	393		393
Movement in OCA in 2017			-15				-15		-15
Unrealised results			8	190			198		198
TOTAL COMPREHENSIVE INCOME			-7	190		393	576		576
Issue of hybrid capital									-
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 31/12/2017	139	6	268	193	3,221	393	4,220	733	4,953

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

Accounting principles for the consolidated financial statements

GENERAL COMPANY INFORMATION

The consolidated financial statements were prepared and issued for publication by the Executive Board on 9 March 2018 and will be presented to the General Meeting of Shareholders for adoption on 19 April 2018. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2, The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

APPLICABLE LAWS AND REGULATIONS

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

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

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

ACCOUNTING PRINCIPLES FOR CONSOLIDATION

Each year, BNG Bank prepares consolidated financial statements for the parent company and its subsidiaries. The financial statements of the parent company and its subsidiaries which are used

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

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

INVOLVEMENT IN NON-CONSOLIDATED STRUCTURED ENTITIES

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

CHANGES IN ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the 2017 financial statements are identical to the figures stated in the 2016 financial statements except for the changes in presentation listed below. The adjustments have not led to any changes in the equity or the result for the 2016 financial year.

APPLIED ACCOUNTING STANDARDS ADOPTED BY THE EU EFFECTIVE 1 JANUARY 2017

BNG Bank has applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2017, to its 2017 financial statements:

- Amendments to IAS 7 Disclosure Initiative. These amendments take effect prospectively on 1 January 2017 and define the requirement of additional disclosures in respect of the statement of cash flows for liabilities arising from financing activities. The EU endorsed the Amendment on 6 November 2017. The additional disclosures are presented In note 38;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. These amendments take effect retrospectively on 1 January 2017 and concern deferred tax assets for unrealised losses which can be offset against future taxable profits. The EU endorsed the Amendment on 6 November 2017. These amendments have no implications, as the bank has no off-settable losses;
- 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 has endorsed the Amendment on 3 November 2017. The standard does not apply to the bank, as BNG Bank does not issue insurance contracts;
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15. This standard replaces a number of standards and interpretations concerning revenue recognition and applies to client contracts which do not fall under the scope of IAS 17, IAS 39 or IFRS 9, IFRS 4, IFRS 10, IFRS 11, IAS 27 and IAS 28. The EU adopted IFRS 15 on 22 September 2016 and it will take effect on 1 January 2018. The bank has examined which types of commission received meet this new standard. The implications for BNG Bank's result, equity and the disclosures are limited.
- Clarification to IFRS 15 Revenue from Contracts with Customers. These clarifications to IFRS 15 will take effect on 1 January 2018. The EU endorsed the Clarifications on 31 October 2017. See also the previous item;
- IFRS 9 Financial Instruments and Amendments to IFRS 9 and IFRS 7. IFRS 9 will replace IAS 39 Financial Instruments almost entirely, apart from the macro hedge accounting section. The EU adopted the new standard on 22 November 2016 and it will take effect on 1 January 2018. As a result of the amendments, a number of new provisions and textual changes have been implemented in the disclosure requirements (IFRS 7). For further details, please refer to 'Explanation of the consequences of IFRS 9' below;
- IFRS 16 Leases. This standard replaces IAS 17 'Leases', IFRIC 4, SIC-15 and SIC-27, and takes effect prospectively on 1 January 2019. The EU endorsed this standard on 31 October 2017. The standard introduces a new lease framework: both lessee and lessor are required to recognise all assets and liabilities under the lease contract. BNG Bank concludes several operating lease contracts each year. The effect of this standard on BNG Bank is very limited.

UNAPPLIED 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 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 the 2017 financial statements in respect of valuation, the determination of the result and the disclosures of the bank.

- 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 first quarter of 2018. 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 first quarter of 2018. This amendment does not apply to the bank, as BNG Bank has no share based payment transactions;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of assets between an investor and its associate or joint venture. These amendments state how an investment in an associate or joint venture should be measured (in connection with fair value) if a subsidiary is deconsolidated. The effective date was 1 January 2016, but has been postponed indefinitely. These amendments apply prospectively to BNG Bank after the final effective date if the bank decides to sell part of its investment in its subsidiaries. The European Commission (EU) is waiting to the response of the IASB on a number of matters before the endorsement process will start;
- IFRS 14 Regulatory Deferral Accounts. This standard applies to first-time adopters and will take effect prospectively on 1 January 2016. The EC has postponed the processing of this standard pending the definitive version. This standard does not apply to BNG Bank;
- Annual Improvements to IFRSs 2014-2016 cycle. These improvements relate to standards IAS 28, IFRS 1 and IFRS 12. The improvements under IFRS 12 take effect prospectively on 1 January 2017 and those under IAS 28 and IFRS 1 on 1 January 2018. The EU is expected to grant approval in the fourth quarter of 2017. The improvements have no implications for the equity, result and disclosures in BNG Bank's financial statements;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. This interpretation concerns the treatment of non-monetary assets and liabilities in foreign currency and may be applied retrospectively or prospectively as of 1 January 2018. The EU is expected to grant approval in the first quarter of 2018. BNG Bank already complies with this interpretation.
- IFRS 17 Insurance contracts. A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. It will replace IFRS 4 and effective for reporting periods starting on or after 1 January 2021. The standard does not apply to the bank, as BNG Bank does not issue insurance contracts. The EU has not set a date to approve this Standard;
- IFRS 23 Uncertainty over Income tax Treatments. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. Effective for annual periods beginning on or after 1 January 2019. The EU is expected to grant approval in 2018. The impact on BNG Bank will be limited.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation. Clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The EU is expected to grant approval in 2018. BNG Bank is examining the impact.
- Amendments to IAS 28 Long-term Interests in Associates and Joint ventures. Clarification that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. The EU is expected to grant approval in 2018. BNG Bank already applies the equity method. No impact expected.

EXPLANATION OF THE CONSEQUENCES OF IFRS 9

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

Due to the changes of IFRS 9 BNG Bank expects a total impact after taxes on the bank's total equity of EUR 271 million negative. The decline of retained earnings as at 1 January 2018 amounts to EUR 49 million negative.

(A) CLASSIFICATION AND MEASUREMENT

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

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

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

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

In particular, for structured interest-bearing securities classified as contractually linked or non-recourse, BNG Bank had to apply judgement as IFRS 9 requires an entity to 'look through' a financial instrument to the underlying asset pool to conclude that it comprises of financial instruments that meet SPPI or includes financial instruments that align specified cash flow mismatches or reduce cash flow variability. This makes the assessment complex and creates a high hurdle to demonstrate that an instrument meets the SPPI test.

Instruments that fail the SPPI test are mandatorily measured at fair value with value movements through the income statement. Financial assets that pass the SPPI test may still be irrevocably designated to be measured at fair value through the income statement if doing so eliminates, or significantly reduces, an accounting mismatch. 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 are normally measured at fair value through the income statement, unless the entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in OCI. BNG Bank is not expected to make use of this so-called 'fair value option' for equity instruments.

The text below sets out the major changes in classification of financial assets held by BNG Bank following the implementation of IFRS 9 – Classification and Measurement.

FINANCIAL ASSETS PREVIOUSLY CLASSIFIED AS AVAILABLE-FOR-SALE (AFS)

The bank's AFS portfolio is reported under the IAS 39 balance sheet item Financial assets Available-for-Sale and comprises the following:

INTEREST-BEARING SECURITIES (IBSS) IN THE LIQUIDITY PORTFOLIO:

This portfolio contains high-quality liquid bonds that can be used for liquidity purposes, for instance in times of stress. This portfolio is subdivided according to the various Liquidity coverage ratio (LCR) classifications. The bank holds these debt instruments within the following business models:

- IBSSs with a Level I LCR classification are held within the Hold to Collect and Sell business model. Insofar as these instruments pass the SPPI test, they are classified as measured at fair value through other comprehensive income (FVOCI) and reported under the IFRS 9 balance sheet item Financial assets at fair value through OCI. Instruments that fail the SPPI test are classified as (mandatorily) measured at fair value through profit or loss (FVTPL) and reported under the IFRS 9 balance sheet item Financial assets at fair value through the income statement.
- IBSSs with other LCR classifications are held within the Hold to Collect business model. Instruments that pass the SPPI test are classified as measured at amortised cost (AC) and are included in the IFRS 9 balance sheet item Interest-bearing securities at amortised cost. Instruments that fail the SPPI test are classified as (mandatorily) measured at fair value through profit or loss (FVTPL) and reported under the IFRS 9 balance sheet item Financial assets at fair value through the income statement.

IBSS IN THE ALM PORTFOLIO:

This portfolio contains investments in bonds that are held within the Hold to Collect business model. Instruments that pass the SPPI test are classified as measured at AC and reported under Interest-bearing securities at amortised cost. Instruments that fail the SPPI test are classified as (mandatorily) measured at FVTPL and reported under Financial assets at fair value through the income statement.

EQUITY INSTRUMENTS:

The AFS equity instruments held by the bank are classified as measured at FVTPL under IFRS 9 and are reported under Financial assets at fair value through the income statement. The bank will not make use of the fair value through OCI option.

INTEREST-BEARING SECURITIES PREVIOUSLY RECLASSIFIED (UNDER IAS 39) FROM AFS TO LOANS AND RECEIVABLES (AC)

This concerns IBSSs that were reclassified in 2008 from AFS to Loans and receivables (and measured at AC). These securities are investments in the so-called Legacy portfolio and are reported under the IAS 39 balance sheet items Amounts due from banks and Loans and advances. Under IFRS 9, these instruments are held within the Hold to Collect business model. Instruments that pass the SPPI test are classified as measured at AC and are included in the balance sheet item Interest-bearing securities at amortised cost. Instruments that fail the SPPI test are classified as (mandatorily) measured at fair value through profit or loss (FVTPL) and reported under Financial assets at fair value through the income statement.

(OTHER) FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (AC)

This concerns financial assets reported under IAS 39 balance sheet items Cash and balances held with the central bank, Amounts due from banks and Loans and advances (excluding the reclassified AFS securities mentioned above). All financial assets within these IAS 39 balance sheet items are held within the Hold to Collect business model. A limited number of instruments that fail the SPPI test are classified as (mandatorily) measured at fair value through profit or loss (FVTPL) and reported under Financial assets at fair value through the income statement. Instruments that pass the SPPI test are classified as measured at AC under IFRS 9. BNG Bank has expanded the number of balance sheet items on the asset side that are measured at AC. The item Cash and balances held with the central bank remains unchanged, whereas the financial assets reported under the items Amounts due from banks and Loans and advances are divided as follows:

- Cash collateral posted with banks and non-banks is transferred from Amounts due from banks and Loans and advances to the new balance sheet item Cash collateral posted;
- Reverse repurchase transactions with banks and non-banks are transferred from Amounts due from banks and Loans and advances to the new balance sheet item Reverse repos;
- IBSs measured at AC with banks and non-banks are transferred from Amounts due from banks and Loans and advances to the new balance sheet item Interest-bearing securities at amortised cost;
- Under IFRS 9 the balance sheet items Amounts due from banks and Loans and advances consist solely of short- and long-term loans and current account balances with banks and non-banks respectively.

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

Under IAS 39 this balance sheet item comprises financial assets designated as measured at FVTPL. Under the new standard this item additionally holds the following financial assets which are mandatorily measured at FVTPL:

- Debt instruments held within the Hold to Collect or the Hold to Collect and Sell business model which fail the SPPI test.
- Equity instruments.

In addition to the changes in classification and measurement described above there are some instruments that are reclassified on an individual instrument basis. This concerns, among other things, the reclassification of financial assets designated as measured at FVTPL under IAS 39 to financial assets measured at AC under IFRS 9 ('de-designation').

The classification and valuation of financial liabilities remains unchanged, except for financial liabilities designated as measured at fair value through the income statement. For these financial liabilities, the value movement due to changes in the bank's creditworthiness must be included in OCI (revaluation reserve) and not taken through the income statement. BNG Bank had already elected early adoption of this part of IFRS 9 in the 2016 financial statements. Further information can be found below under the heading 'Transition and early adoption'.

The total impact of changes in classification and measurement on the carrying amount of financial assets amounts to approximately EUR 5 million positive in the opening balance sheet as at 1 January 2018.

(B) HEDGE ACCOUNTING

The amendments to the hedge accounting regulations are expected to have a limited impact on the Bank's results. There are no implications for portfolio hedge accounting (or macro hedge accounting), as IAS 39 remains applicable. The application of micro hedge accounting of financial instruments in euros also remains unchanged, which means that the income statement is likewise unaffected. Nevertheless, due to a freefall of a hedge accounting correction under IAS 39, that would have been amortised over time, the impact of IFRS 9 on balance sheet item Value adjustments on loans in portfolio hedge accounting as at 1 January 2018 is EUR 127 million negative. This is also the main cause of the EUR 79 million decline (after taxes) of the revaluation reserve.

However, the application of micro hedge accounting of financial instruments in foreign currency will change under IFRS 9. Under IFRS 9, cross-currency basis risk is not treated as hedged risk, but as 'cost of hedging'. For BNG Bank, this means that value movements arising from the cross-currency basis spread can no longer be included under the cash flow hedge reserve. Instead, this 'cost of hedging' will be included under a separate item in the unrealised portion of the equity. Unlike the cash flow hedge reserve, this item will be part of Tier 1 capital. For BNG Bank, the complexity mainly relates to the valuation methodology applied to separate value movements due to the cross-currency basis spread. This change in hedge accounting has the following impact (after taxes) on the bank's equity as at 1 January 2018:

- The cash flow hedge reserve decreases from EUR 193 million positive (IAS 39) to EUR 19 million positive (IFRS 9); and
- The new 'cost of hedging' line item under IFRS 9 amounts to EUR 22 million positive.

(C) IMPAIRMENTS

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

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

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

information of macro-economic factors. Mainly with respect to the probability of default and loss given default used in the expected credit losses, BNG Bank had to apply significant judgement due to the low default character of the bank's loan portfolio. Mainly as due to this low default character of the loan portfolio there is limited internal historical data to perform back-testing. In the coming years BNG Bank will continue to evaluate the probability of default and loss given default assumptions applied in the expected credit losses.

As the new impairment method has a larger scope and the new calculations by definition lead to higher provisions, the bank anticipates an increase of the bank's expected credit loss provision of approximately EUR 38 million negative. Of this total, EUR 1 million negative will be recognised in the revaluation reserve as an ECL provision for financial assets at fair value through other comprehensive income. The total impact after taxes on equity as at 1 January 2018 amounts to EUR 28 million negative.

TRANSITION AND EARLY ADOPTION

BNG Bank decided in 2016 to the early adoption of one part of IFRS 9 in the financial statements. This concerns the presentation of value movements in financial assets at fair value through the income statement as a result of changes in the Bank's own credit risk ('Own Credit Adjustment'/OCA), in accordance with section 7.1.2 of IFRS 9. Due to the early adoption, movements in the OCA (net of taxes) are not recognised through the income statement but through the unrealised portion of the equity (in this case the revaluation reserve). In the event of a buy back of financial liabilities at fair value through the income statement, the OCA for the transaction in question is transferred from the revaluation reserve to the realised portion of the equity (other reserves). BNG Bank has decided in favour of early adoption, as it eliminates an accounting mismatch because the 'own credit risk' is not hedged. This is a condition for adopting this part of IFRS 9.

In the past, BNG Bank has consistently set the spread for its own credit risk at zero, on the basis of its high ratings and excellent creditworthiness, as a precaution. The adoption of this part of IFRS 9 therefore had no impact on the opening balance sheet as at 1 January 2016. The total value of the OCA as at 31 December 2017 is EUR 9 million positive (after tax) in equity (2016: EUR 24 million positive).

SEGMENTED INFORMATION

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the price (not adjusted for transaction costs) which, regardless of the company's intention or capability, would be received if a financial asset was sold, or the price that would be paid if a financial liability was transferred in an orderly transaction between market participants as at the measurement date under the current market conditions. The starting point is that the valuation must be viewed from the perspective of market parties, whereby only the specific characteristics and limitations of the financial instrument may be taken into consideration.

Fair value is based on quoted market prices in active markets or, if unavailable, on modelled valuation techniques. Valuation techniques are generally used to determine the fair value of unlisted assets and liabilities and OTC derivatives. This concerns generally accepted techniques and methods such as option pricing models, discounted cash flows, forward pricing and credit and liquidity spreads. Contractual provisions are taken into account and available objective market data are used, such as market-based yield curves for discounting, correlations, volatilities, cross-currency basis spreads, credit spreads, valuation adjustments and other factors, estimates and assumptions which market parties would use to determine the price. Fair value 'Level 3' valuations are based in part on assumptions that are not observable in the market.

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

IMPAIRMENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

FINANCIAL ASSETS CARRIED AT AMORTISED COST

For outstanding loans and receivables in the Amounts due from banks and Loans and advances items, which are carried at amortised cost, BNG Bank creates an incurred loss provision which is charged to the income statement. In determining impairments, a distinction is made between

loans and receivables involving an objective indication of impairment and loans and receivables for which there is no objective indication of impairment.

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

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

Both the individual provision and the collective provision fall under the regulatory specific credit risk adjustments. This concerns adjustments relating to:

- Credit risk of an entire group of exposure, or;
- Credit risk of an individual exposure.

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

FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH EQUITY

The impairments concern here two groups of BNG Bank's financial assets carried at fair value through equity:

- Investments in equity instruments;
- Investments in debt instruments.

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

BALANCE SHEET NETTING

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

FOREIGN CURRENCY

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

RECOGNITION AND ACCOUNTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognised if:

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

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

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

TRANSFER OF FINANCIAL ASSETS

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

RECOGNITION AND ACCOUNTING OF DERIVATIVES

From initial recognition, derivatives are in principle carried at fair value, and any fair value movements are recognised under the Result on financial transactions item in the income statement. Derivatives are generally included under assets if they have a net positive fair value

or under liabilities for a net negative fair value, with the exception of derivative transactions entered under a 'central clearing house'. For these derivatives, netting takes place of the fair value of all derivatives with a financial counterparty that acts as an intermediary between the bank and the 'central clearing house'.

SEPARATED DERIVATIVES EMBEDDED IN FINANCIAL INSTRUMENTS

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

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

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

NON-SEPARATED DERIVATIVES EMBEDDED IN FINANCIAL INSTRUMENTS

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

HEDGE ACCOUNTING

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

In principle, BNG Bank only uses derivatives as hedging instruments. They are mandatorily measured at fair value in the balance sheet. The counterpart in the hedging relationship is the hedged item, which is generally recognised at amortised cost. Insofar as the hedge accounting relationship is effective, hedge accounting enables the bank to neutralise the difference in measurement and result recognition between the hedging instruments and the hedged items. BNG Bank applies both fair value and cash flow hedge accounting. On the trade date of a derivative transaction, it is determined at inception whether and how this transaction will be involved in a hedge accounting relationship. Hedge accounting is only applied when the formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between the two and the objective of the hedge. Hedge documentation should demonstrate that the hedge is expected to be effective and the way in which effectiveness is determined. Effectiveness means that, during the reporting period, there are opposing risks between the hedging instrument and the hedged item, which are within the limits defined by IAS 39 (80% – 125%). It should furthermore be demonstrated that the hedge will remain

effective for the remaining term. The net ineffective portion of the hedge relationship is recognised directly in the Result on financial transactions item of the income statement.

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

FAIR VALUE HEDGE ACCOUNTING

BNG Bank applies two types of fair value hedge accounting: micro-hedging and portfolio hedging. Micro-hedging is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. In the case of micro-hedging, there is an apparent one-on-one relationship between the hedged item and the hedging instrument. BNG Bank applies micro-hedging to (a large part of) the financial liabilities classified under the Funds entrusted and Debt securities balance sheet items, as well as to large portions of the (highly) liquid assets in the Financial assets-available-for-sale item. Portfolio hedging concerns a group of transactions in euros that are hedged for interest rate risk using a portfolio of derivatives. BNG Bank applies portfolio hedging to the majority of long-term fixed-interest loans (Loans and advances item) and a limited number of fixed-interest securities (Financial assets available-for-sale item). There is no relationship between individual hedged items and hedging instruments, but it is shown at the portfolio level that the derivatives involved offset the value changes in the related assets arising from interest rate movements. Due to the lack of a direct relationship between the assets and the derivatives used for hedging, the value adjustments of the hedged interest rate risk – unlike the micro-hedging situation – are recognised in the Value adjustments on loans in portfolio hedge accounting balance sheet item.

CASH FLOW HEDGE ACCOUNTING

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

CASH AND BALANCES HELD WITH CENTRAL BANKS

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

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

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

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

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

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

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

In principle, the fair value designation of transactions, which is irrevocable, takes place at the trade date. BNG Bank has no held for trading assets and liabilities in these balance sheet items.

DERIVATIVES (ASSETS AND LIABILITIES)

All derivative transactions, except non-separated derivatives embedded in financial instruments, are recognised at fair value in the Derivatives balance sheet items (assets and liabilities).

Value movements are recognised under the Result on financial transactions item in the income statement.

VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

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

FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

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

If interest-bearing securities are involved in a fair value hedge accounting relationship, the effective portion of the hedge is accounted for in the result, and not in equity. The interest

result amortised on the basis of the effective interest method and any currency revaluations are recognised directly in the income statement. In the event that interest-bearing securities and participating interests are sold, the cumulative fair value movement is deducted from equity and recognised in the Result on financial transactions item of the income statement.

ASSOCIATES AND JOINT VENTURES

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

PROPERTY AND EQUIPMENT

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

ASSETS AND LIABILITIES HELD-FOR-SALE

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

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

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

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

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

EMPLOYEE BENEFITS

PENSIONS

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

OTHER EMPLOYEE BENEFITS

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

TAXES

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

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

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

EQUITY

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

HYBRID CAPITAL

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

REVALUATION RESERVE

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

From 1 January 2016, Financial assets at fair value through the income statement are recognised at the relevant purchase curve, including the spread for 'own credit risk'. The Bank has decided

to recognise this Own Credit Risk Adjustment (net of deferred tax assets and liabilities) in the revaluation reserve in equity.

CASH FLOW HEDGE RESERVE

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

INTEREST INCOME AND INTEREST EXPENSES

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

COMMISSION INCOME AND COMMISSION EXPENSES

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

RESULT ON FINANCIAL TRANSACTIONS

This item comprises unrealised market value changes in:

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

This item also includes sales and buy-out results for financial instruments measured at fair value. These realised results consist of the difference between the net proceeds of the sale and the carrying amount, including the release of value movements accumulated in the equity. Returns from the participating interests (equity instruments) included under Financial assets available-for-sale are also recognised under this item. Finally, differences between the fair value and transaction price of financial assets and liabilities measured at fair value on initial recognition are also included under this item. For fair value level 1 and 2 transactions, the difference is recognised directly in the income statement; for fair value level 3 transactions, it is amortised over the term of the transaction.

RESULTS FROM ASSOCIATES AND JOINT VENTURES

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

RESULT FROM SALE OF ASSETS HELD-FOR-SALE

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

OTHER RESULTS

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

DEPRECIATION

Please refer to the Property and equipment section.

CONTRIBUTION TO RESOLUTION FUND

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

BANK LEVY

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement has been drawn up in accordance with the indirect method. The cash flows are categorised as cash flows from operating, investing and financing activities. Cash and cash equivalents include cash at hand, the available balances with banks and central banks and overnight interbank loans. These funds have less than three months' maturity from the date of acquisition, are readily convertible into a known amount of cash and are subject to a negligible risk of changes in value. The changes in loans and advances, funds entrusted, derivatives and amounts due from and due to banks are included in the cash flow from operating activities. Investing activities comprise purchases, sales and redemptions in the investment portfolio, as well as purchases and sales of associates and joint ventures and property and equipment. Drawdowns and repayments of subordinated debt and bond loans, as well as the dividend paid, are presented as financing activities.

Notes to the consolidated financial statements

Amounts in millions of euros

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

1

CASH AND BALANCES HELD WITH THE CENTRAL BANK

	31/12/2017	31/12/2016
Current account balances with the central bank (due on demand)	2,996	6,417
TOTAL	2,996	6,417

2

AMOUNTS DUE FROM BANKS

The Amounts due from banks item includes all receivables from banks measured at amortised cost, as well as interest-bearing securities issued by banks which were reclassified from available-for-sale to amortised cost.

	31/12/2017	31/12/2016
Short-term loans and current account balances	3	4
Cash collateral	13,892	11,541
Long-term lending	9	10
Interest-bearing securities reclassified from available-for-sale	93	240
TOTAL	13,997	11,795

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2017	31/12/2016
Loans and advances	842	904
Interest-bearing securities	1,164	1,446
TOTAL	2,006	2,350

No new loans and advances or interest-bearing securities were included in this item in 2017. The total redemption value of these loans and advances and securities at year-end 2017 is EUR 1,463 million (2016: EUR 1,724 million). Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

4 DERIVATIVES

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

	31/12/2017	31/12/2016
Derivatives not involved in a hedge accounting relationship	273	1,069
Derivatives involved in a portfolio hedge accounting relationship	3,795	4,428
Derivatives involved in a micro hedge accounting relationship	4,914	9,915
TOTAL	8,982	15,412

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments.

	31/12/2017	31/12/2016
Interest-bearing securities, issued by:		
– Governments	7,597	8,225
– Supranational organisations	730	1,217
– Credit institutions	2,259	2,357
– Other financial corporations	2,545	2,629
– Non-financial corporations	979	984
Investments in participating interests	0	25
TOTAL	14,110	15,437

TRANSFERS WITHOUT DERECOGNITION

At year-end 2017 and 2016, BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

6 LOANS AND ADVANCES

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

	31/12/2017	31/12/2016
Short-term loans and current account balances	4,620	4,891
Long-term lending	79,929	81,260
Interest-bearing securities	662	272
Reclassified available-for-sale transactions	831	1,195
	86,042	87,618
Incurred loss provision	-34	-42
TOTAL	86,008	87,576

The EUR 34 million (2016: EUR 42 million) incurred loss provision comprises EUR 20 million (2016: EUR 26 million) in individual provisions and EUR 14 million (2016: EUR 16 million) to the collective provision (IBNI).

	2017	2016
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	-42	-49
Additions during the financial year	-3	-4
Release during the financial year	7	7
Withdrawals during the financial year	4	4
CLOSING BALANCE	-34	-42

7 VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

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

	2017	2016
MOVEMENTS OF VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING		
Opening balance	14,894	13,559
Movements in the unrealised portion in the financial year	-2,120	2,818
Amortisation in the financial year	-860	-1,446
Realisation from sales in the financial year	-101	-37
CLOSING BALANCE	11,813	14,894

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
ASSOCIATES				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
SUBTOTAL			3	3
JOINT VENTURES				
BNG Gebiedsontwikkeling BV, various immaterial participations	See Other Notes		44	43
TOTAL			47	46

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

9 PROPERTY AND EQUIPMENT

	2017	2016	2017	2016	2017	2016
	PROPERTY		EQUIPMENT		TOTAL	
HISTORICAL COST						
Value as at 1 January	49	48	17	15	66	63
Investments	0	1	2	2	2	3
Disposals	–	0	–	0	–	0
Value as at 31 December	49	49	19	17	68	66
DEPRECIATION						
Accumulated depreciation as at 1 January	36	34	13	13	49	47
Depreciation during the year	1	2	1	0	2	2
Accumulated depreciation as at 31 December	37	36	14	13	51	49
TOTAL	12	13	5	4	17	17

ESTIMATED USEFUL LIFE	
Buildings	33 ¹ / ₃ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

10 OTHER ASSETS

	31/12/2017	31/12/2016
Various receivables	19	56
TOTAL	19	56

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

11 ASSETS HELD-FOR-SALE

	31/12/2017	31/12/2016
Investments in participating interests	30	-
TOTAL	30	-

The investments in participating interests that are held-for-sale at the end of 2017 concern equity investments in a fund that finances infrastructural projects. This participating interest is expected to be sold in the first half of 2018.

12 AMOUNTS DUE TO BANKS

	31/12/2017	31/12/2016
Current account balances	0	0
Cash collateral received	314	1,698
Deposits	1,832	1,782
Private loans	247	50
TOTAL	2,393	3,530

13 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2017	31/12/2016
Debt securities	715	943
Privately placed debt securities	229	247
TOTAL	944	1,190

The total redemption value of the debt securities and funds entrusted at year-end 2017 is EUR 765 million (2016: EUR 962 million). From 1 January 2016, financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark up for 'own credit risk'. The total change in value (before tax) was EUR 11 million positive (2016: EUR 32 positive). Note 25 Result on financial transactions explains the changes in value recognised through the income statement.

14 DERIVATIVES

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

	31/12/2017	31/12/2016
Derivatives not involved in a hedge accounting relationship	1,001	1,134
Derivatives involved in a portfolio hedge accounting relationship	16,598	20,519
Derivatives involved in a micro hedge accounting relationship	4,271	3,127
TOTAL	21,870	24,780

15 TAXES

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

	31/12/2017	31/12/2016
Current tax liability	17	31
Deferred tax liability	173	116
TOTAL	190	147

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellings-overeenkomst') for the period 2013 – 2017. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached. For the period 2018 and thereafter, no agreement has been concluded yet due to the introduction of the IFRS 9 regulation, but the Dutch tax authorities are willing to continue the current agreement.

The reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2017	2016
NOMINAL AND EFFECTIVE TAX RATE		
Profit before tax	536	503
Tax levied at the nominal tax rate	-134	-126
Tax adjustment from previous years	0	0
Participation exemption	0	0
Result on the sale of BNG Vermogensbeheer not subject to tax	0	1
Non-deductible costs (bank levy)	-9	-9
EFFECTIVE TAX	-143	-134
Nominal tax rate	25.0%	25.0%
Effective tax rate	26.7%	26.6%

	2017			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	0			0
Financial assets available-for-sale	-104	2		-102
Cash flow hedge reserve	-2	-63		-65
Own Credit Adjustment	-8	5		-3
Hybrid capital	-3	-1		-4
Employee benefits provision	1		0	1
TOTAL	-116	-57	0	-173

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

16 DEBT SECURITIES

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

	31/12/2017	31/12/2016
Bond loans	89,895	92,915
Commercial Paper	9,204	14,297
Privately placed debt securities	5,028	4,968
TOTAL	104,127	112,180

17 FUNDS ENTRUSTED

	31/12/2017	31/12/2016
Current account balances	1,846	1,949
Cash collateral received	55	78
Deposits	0	1,336
Private loans	3,571	4,194
TOTAL	5,472	7,557

18 SUBORDINATED DEBT

	31/12/2017	31/12/2016
Subordinated debt	31	31
TOTAL	31	31

19 OTHER LIABILITIES

	31/12/2017	31/12/2016
Employee benefits provision	2	3
Other liabilities	43	96
TOTAL	45	99

The employee benefits provision is made up of two parts, namely a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2016: EUR 2 million) and a provision for vitality leave of EUR 1 million (2016: EUR 1 million). Both provisions have a long-term character.

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

	2017	2016
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	3	2
Movements in the provision	-1	1
NET LIABILITY AS AT 31 DECEMBER	2	3

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

20 EQUITY

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

	31/12/2017	31/12/2016
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve		
– Financial assets available-for-sale	259	251
– Financial liabilities at fair value through the income statement ('own credit risk')	9	24
	268	275
Cash flow hedge reserve	193	3
Other reserves	3,221	2,961
Unappropriated profit	393	369
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	4,220	3,753
Hybrid capital	733	733
TOTAL	4,953	4,486

	2017	2016
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	2.53	1.64
PROPOSED DIVIDEND		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	134	84
TOTAL	141	91

The proposed dividend distribution for 2017 takes into account the EUR 18 million dividend (after tax) that has already been paid on the hybrid capital in 2017. This payment was charged to the Other reserves.

SHARE CAPITAL

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

SHARE PREMIUM RESERVE

There were no movements in 2017 and 2016.

REVALUATION RESERVE

The revaluation reserve includes EUR 259 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. EUR 10 million (2016: EUR 9 million) of the Revaluation reserve is associated with equity instruments as at 31 December 2017. The revaluation reserve also includes an Own Credit Adjustment of EUR 9 million net of taxes (2016: EUR 24 million). This adjustment relates to financial liabilities measured at fair value through the income statement.

CASH FLOW HEDGE RESERVE

The effective portion of the unrealised changes in the value of derivatives, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The cash flow hedge reserve is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 36 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting.

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2017, a dividend of EUR 91 million (2016: EUR 57 million) was paid out to the bank's shareholders for 2016, charged to the Other reserves. EUR 24 million (before tax) was distributed to the holders of the hybrid capital in 2017 (2016: EUR 6 million), charged to the Other reserves. The Other reserves still include a share premium of EUR 0.1 million in total (2016: EUR 1 million).

UNAPPROPRIATED PROFIT

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

HYBRID CAPITAL

The bank's hybrid capital amounts to EUR 733 million. In 2017 no additional hybrid capital was issued. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this payment for corporate income tax purposes has led to a public debate and the announcement of an enquiry by the European Commission into this subject in relation to potentially incompatible state aid. If the European Commission makes a negative recommendation, this could mean that BNG Bank will be required to repay the tax benefits and/or that future deductibility will no longer be permitted.

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

21 INTEREST INCOME

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

	2017	2016
Financial assets at fair value through the income statement	55	66
Financial assets available-for-sale	244	304
Derivatives	3,225	3,210
Loans and advances	2,325	2,495
Negative interest expenses on financial liabilities	39	36
Other	17	15
TOTAL	5,905	6,126

The interest income in 2017 include EUR 4 million (2016: EUR 4 million) in interest income for financial assets, relating to Financial assets available-for-sale (note 5) and Loans and advances (note 6), which were subject to impairment.

22 INTEREST EXPENSES

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

	2017	2016
Financial liabilities at fair value through the income statement	41	49
Derivatives	3,060	3,220
Debt securities	2,100	2,238
Funds entrusted	128	111
Negative interest revenues on financial assets	86	91
Other	55	12
TOTAL	5,470	5,721

23 COMMISSION INCOME

This item includes income from services provided to third parties.

	2017	2016
Income from loans and credit facilities	16	19
Income from payment services	10	9
TOTAL	26	28

24 COMMISSION EXPENSES

This item comprises expenses totalling EUR 3 million (2016: EUR 4 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 RESULT ON FINANCIAL TRANSACTIONS

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

	2017	2016
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	42	45
– Structured loans	2	2
	44	47
RESULT ON HEDGE ACCOUNTING		
– Portfolio fair value hedge accounting	48	18
– Micro fair value hedge accounting	–24	3
– Micro cash flow hedge accounting	–3	26
	21	47
Change in counterparty credit risk of derivatives (CVA/DVA)	37	–21
Realised sales and buy-out results	52	62
Other market value changes	27	–17
TOTAL	181	118

In 2017, the result on financial transactions was positively affected by unrealised results, mainly due to a slight increase in long-term interest rates. In addition, the reduced credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a positive result. The result on financial transactions was positively affected by a decline in counterparty credit risk for derivatives and other market value adjustments. The Other market value adjustments item also includes the effects of movements in the USD/EUR and EUR/GBP cross-currency basis spreads of derivatives not involved in a hedge accounting relationship.

26 RESULTS FROM ASSOCIATES AND JOINT VENTURES

	2017	2016
Associates	1	3
Joint ventures	1	1
TOTAL	2	4

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

27 RESULT FROM SALE OF ASSETS HELD-FOR-SALE

The investments in participating interests that are held-for-sale at the end of 2017 concern equity investments in a fund that finances infrastructural projects. This investment is expected to be sold in the first half of 2018. At completion, the difference between the balance sheet value (including the value recognised in the revaluation reserve) and the sales proceeds will be attributed to this item in the income statement.

28 OTHER RESULTS

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

	2017	2016
Income from consultancy services	2	3
TOTAL	2	3

29 STAFF COSTS

	2017	2016
Wages and salaries	26	25
Pension costs	4	3
Social security costs	3	2
Additions to the employee benefits provision	0	0
Other staff costs	11	8
TOTAL	44	38

The variable remuneration of individual staff members in 2017 amounted to a maximum of 20% of their fixed salary (2016: 20%).

30 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2017 amounted to EUR 26 million (2016: EUR 26 million).

31 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 9). In total, the depreciation charges amounted to EUR 2 million in 2017 (2016: EUR 2 million).

32 IMPAIRMENTS

The impairments in 2017 amounted to EUR 10 million negative (2016: EUR 32 million negative). The impairments in 2017 were largely caused by the reversal of impairment on a Spanish securitisation, which had already previously been written down. Impairments on four BNG Gebiedsontwikkeling participations amounted to EUR 1 million (2016: EUR 8 million) and impairments on two participations were reversed for a total of EUR 4 million (2016: EUR 1 million). The reversal is a consequence of renegotiations with other participators about restructuring the participation and as a result of the improved market conditions. The participations are now valued at going concern.

	2017	2016
Addition to the incurred loss provision	3	4
Release from the incurred loss provision	-7	-8
Impairment of financial assets available-for-sale	-	4
Reversal of impairment of financial assets available-for-sale	-	-39
Reversal of impairment of reclassified financial assets available-for-sale	-3	-
Impairment of associates and joint ventures	1	8
Reversal of impairment of associates and joint ventures	-4	-1
TOTAL	-10	-32

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

33 CONTRIBUTION TO RESOLUTION FUND AND BANK LEVY

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 9 million payable for 2017 (2016: EUR 16 million) was paid in December and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy on 1 October of every year, which for 2017 amounts to EUR 36 million (2016: EUR 35 million). Based on the same methodology and assumptions, the bank levy owed for 2018 is expected to be EUR 32 million.

	2017	2016
THE BANK LEVY IS CALCULATED AS FOLLOWS:		
Balance sheet total	154,000	149,511
Less: Tier 1 capital	4,211	3,581
Less: Deposits covered by the deposit-guarantee scheme	43	47
TAXABLE BASE	149,746	145,883
Less: Efficiency exemption	20,000	20,000
TAXABLE AMOUNT	129,746	125,883
Total sum of debts with a maturity of less than one year, according to note 35	40,117	40,267
Total sum of all debts, according to the balance sheet	149,514	145,348
Bank levy on short-term debt (0.044% of taxable amount)	15	15
Bank levy on long-term debt (0.022% of taxable amount)	21	20
TOTAL CALCULATED/DUE	36	35
Additional tax assessment		–
TOTAL IN THE INCOME STATEMENT	36	35

34 FEES OF INDEPENDENT AUDITORS

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

35

BREAKDOWN OF BALANCE SHEET VALUE BY REMAINING CONTRACTUAL MATURITY

	31/12/2017					
	DUE ON DEMAND	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	2,996					2,996
Amounts due from banks	3	13,893	73	25	3	13,997
Financial assets at fair value through the income statement		26	68	374	1,538	2,006
Derivatives		386	1,154	4,833	2,609	8,982
Financial assets available-for-sale		249	433	5,266	8,162	14,110
Loans and advances	1,511	5,501	9,404	33,135	36,457	86,008
Value adjustments on loans in portfolio hedge accounting		10	74	1,968	9,761	11,813
Other assets		18	1			19
Assets held-for-sale			30			30
TOTAL ASSETS	4,510	20,083	11,237	45,601	58,530	139,961
Amounts due to banks	0	1,995	163	48	187	2,393
Financial liabilities at fair value through the income statement		27	170	211	536	944
Derivatives		430	1,498	7,958	11,984	21,870
Current tax liability			17			17
Deferred tax liability					173	173
Debt securities		9,130	17,491	46,424	31,082	104,127
Funds entrusted	1,846	157	184	2,311	974	5,472
Subordinated debt		1	0	2	28	31
Other liabilities		43			2	45
TOTAL LIABILITIES	1,846	11,783	19,523	56,954	44,966	135,072

	31/12/2016					
	DUE ON DEMAND	UP TO 3 MONTHS	3 - 12 MONTHS	1 - 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	6,417					6,417
Amounts due from banks	4	11,660	30	97	4	11,795
Financial assets at fair value through the income statement		80	60	384	1,826	2,350
Derivatives		1,429	2,194	7,834	3,955	15,412
Financial assets available-for-sale		231	873	6,273	8,060	15,437
Loans and advances	1,418	6,313	8,875	33,599	37,371	87,576
Value adjustments on loans in portfolio hedge accounting		555	1,392	5,805	7,142	14,894
Other assets		56				56
TOTAL ASSETS	7,839	20,324	13,424	53,992	58,358	153,937
Amounts due to banks	0	3,480	2	10	38	3,530
Financial liabilities at fair value through the income statement		3	127	332	728	1,190
Derivatives		441	1,466	7,270	15,603	24,780
Current tax liability		31				31
Deferred tax liability					116	116
Debt securities		14,833	15,831	50,094	31,422	112,180
Funds entrusted	1,949	1,423	432	2,567	1,186	7,557
Subordinated debt		1	1	3	26	31
Other liabilities		96			3	99
TOTAL LIABILITIES	1,949	20,308	17,859	60,276	49,122	149,514

36 BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

	31/12/2017				
	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	2,996				2,996
Amounts due from banks	13,997				13,997
Financial assets at fair value through the income statement		2,006			2,006
Derivatives			8,982		8,982
Financial assets available-for-sale				14,110	14,110
Loans and advances	86,008				86,008
Value adjustments on loans in portfolio hedge accounting	11,813				11,813
Assets held-for-sale				30	30
TOTAL ASSETS	114,814	2,006	8,982	14,140	139,942
Amounts due to banks	2,393				2,393
Financial liabilities at fair value through the income statement		944			944
Derivatives			21,870		21,870
Debt securities	104,127				104,127
Funds entrusted	5,472				5,472
Subordinated debt	31				31
TOTAL LIABILITIES	112,023	944	21,870	–	134,837

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

37 RECLASSIFICATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

At the time of reclassification in 2008, the bank anticipated that all future cash flows would be received. The calculation of the effective interest rate is based on the original cash flows. The effective interest rates of these reclassified assets have a weighted average of 5.3% and range from 4.6% to 5.8%. The unrealised changes in value in the revaluation reserve are presented after tax.

	31/12/2017		
	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
BALANCE SHEET VALUE AS AT 31/12/2017			
Financial assets available-for-sale	14,110	15,056	–946
Amounts due from banks	13,997	13,904	93
Loans and advances	86,008	85,177	831
Equity	4,953	4,970	–17
– of which revaluation reserve	268	285	–17

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

	31/12/2017		31/12/2016	
	WITH RECLASSIFI- CATION	WITHOUT RECLASSIFI- CATION	WITH RECLASSIFI- CATION	WITHOUT RECLASSIFI- CATION
RECLASSIFIED ASSETS				
Balance sheet value	924	946	1,435	1,444
Fair value	946	946	1,444	1,444
Total unrealised market value changes in equity	47	30	–83	–74

REALISED AND UNREALISED RESULTS FROM RECLASSIFIED TRANSACTIONS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	TOTAL
Movement in unrealised market value changes in equity with reclassification	130	-6	22	15	20	24	24	27	25	-201	80
Movement in unrealised market value changes in in equity without reclassification	104	36	-7	199	40	106	-86	-9	153	-473	63
Interest income	14	30	38	42	45	62	88	82	120	276	797
Realised sales results	-4	1	0	-	0	0	-	-4	-3	-	-10
TOTAL REALISED RESULTS IN THE INCOME STATEMENT	10	31	38	42	45	62	88	78	117	276	787

38

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DEBT SECURITIES	SUB- ORDINATED DEBT	HYBRID CAPITAL	TOTAL
BALANCE SHEET AT 1 JANUARY 2017	1,190	112,180	31	733	114,134
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from financing activities	11	222,828			222,839
Repayments on financing activities	-183	-223,076	-1		-223,260
Interest and other cash flows	-15	-1,857	-1		-1,873
Dividend distribution on hybrid capital				-23	-23
	-187	-2,105	-2	-23	-2,317
NON-CASH CHANGES					
Unrealised results:					
– Foreign exchange movement	-98	-6,764			-6,862
– Fair value changes	3	-1,311			-1,308
Realised results	36	2,127	2		2,165
	-59	-5,948	2	0	-6,005
Dividend distributed from Other reserves				23	23
BALANCE AT 31 DECEMBER 2017	944	104,127	31	733	105,835

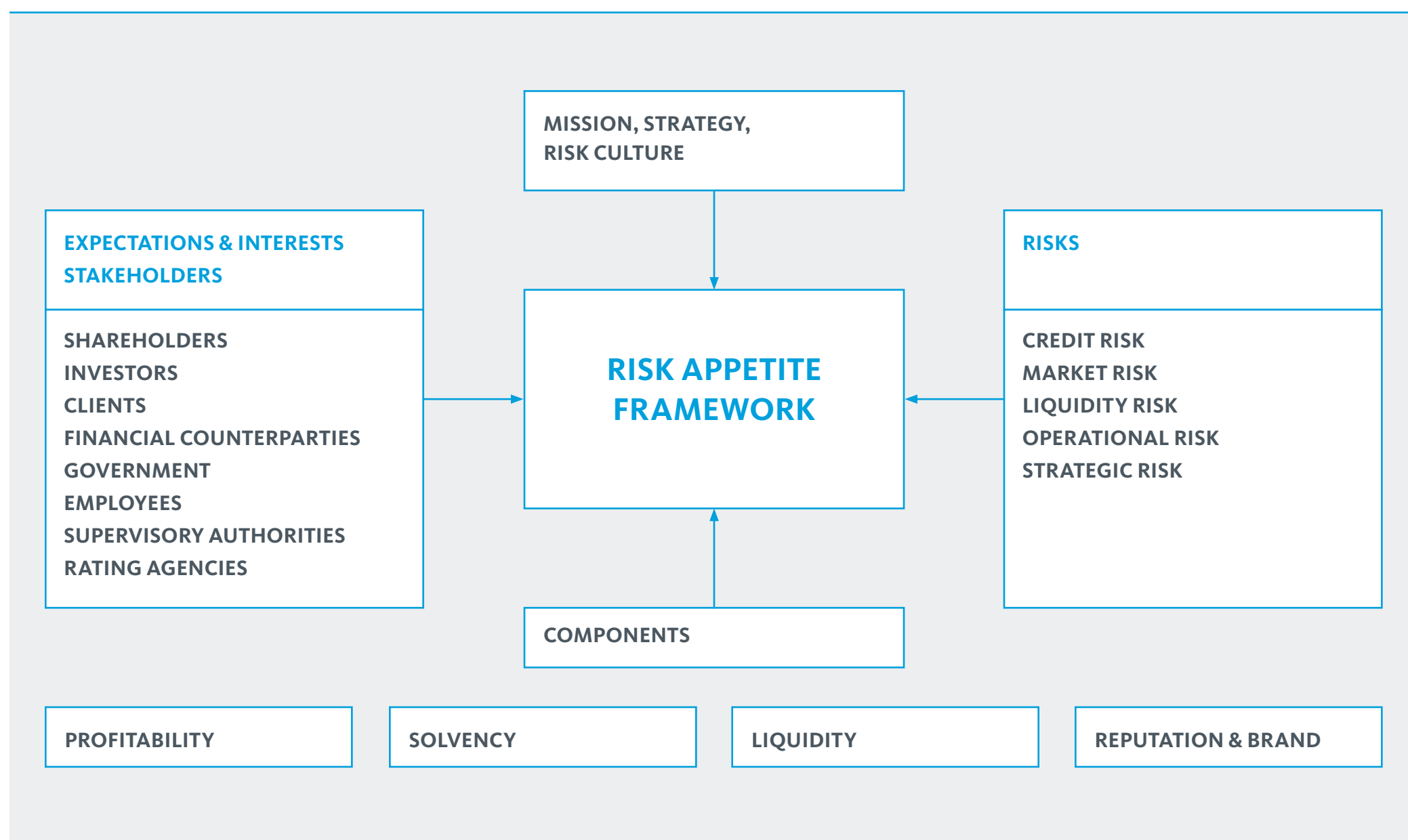
Risk Section

General

The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct its operations, a bank must accept a certain amount of credit, market, liquidity and operational risk. On top of this, there is strategic risk. BNG Bank only has a banking book and does not have a trading book. BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. For this reason, BNG Bank employs a strict capitalisation policy.

RISK APPETITE STATEMENT

The bank has prepared a Risk Appetite Statement (RAS) describing its risk appetite, which sets out the types and degree of risk the bank is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan. The risk appetite falls within the risk capacity, which is the maximum risk level that the bank is able to assume given its capital base, risk management and control capabilities as well as its regulatory constraints and at which the bank is still able to meet its obligations towards its clients, investors, shareholders and other stakeholders. The Bank has a mission, a strategy and core values, which jointly influence the risk culture. The bank balances the interests of the various stakeholders when fulfilling the mission and executing the strategy. To facilitate this, a stakeholders model is used which is represented in the next figure.



Formulating a risk appetite also requires definitions of risks to ensure everyone speaks the same language. BNG Bank recognises the financial risks of credit risk, market risk and liquidity risk, as well as the non-financial risks of operational risk and strategic risk in this regard. Finally, several components are defined that form the core of the bank's operations and constitute the framework within which the risk appetite is formulated. In the case of a bank, the components (1) Profitability, (2) Solvency and (3) Liquidity are most obvious. These are widely used concepts for assessing the security and hence the risk profile of a bank. Besides those components, BNG Bank has also opted for (4) Reputation & Brand as BNG Bank has always placed great value on an impeccable reputation. The risk appetite is evaluated annually and adjusted where necessary in order to ensure that it remains in line with BNG Bank's strategic objectives:

- substantial market shares in the Dutch public sector and semi-public domain;
- generate a reasonable return for its shareholders.

And satisfies the conditions identified in this context:

- an excellent credit rating and adequate risk management;
- an excellent funding position;
- effective and efficient operations.

In translating these strategic objectives and conditions into the risk appetite, the bank identifies the interests and expectations of all its stakeholders. This subsequently results in the formulation of objectives with regard to profitability, solvency, liquidity and reputation & brand in the form of the RAS. The RAS is laid down by both the Executive Board and the Supervisory Board. Once the risk appetite has been established, it is translated to the different risks, namely the financial risks of credit risk, market risk and liquidity risk, and the non-financial risks of operational risk and strategic risk. The risk appetite for the four components is reflected in the following objectives:

PROFITABILITY
BNG Bank aims to minimise charges for the public sector, and hence does not seek to maximise profits. For its shareholders the bank’s objective is to achieve a reasonable return. Relative stability of the annual results is also important to different stakeholders, including regulatory authorities and rating agencies. ‘Relative’ in this context refers to a maximum percentage of deviation relative to the previous annual result.
SOLVENCY
BNG Bank aims expressly to stand out in the financial markets in terms of the size and quality of its capital. This is expressed in the desired rating profile: a rating at the same level as that of the Dutch State. To realise this, BNG Bank’s capital must be significantly greater than the criteria applied by the regulatory authorities and significantly greater than (the majority of) other banks to ensure favourable funding rates. This relates to domestic Dutch banks as well as foreign banks.
LIQUIDITY
BNG Bank intends to use its position to maintain a lasting and stable presence in the market for the public sector and continue to meet the demand for lending even in difficult times. It also aims for a prudent liquidity position, with due regard for the principles that it is always able to meet its short-term obligations and also adequately mitigates its refinancing risk. In this context, continuous access to funding is crucial and hence continuous maintenance of an attractive, varied issuance programme of sufficient volume for investors. In addition, it is important to have sufficient collateral lodged with the ECB to ensure short-term funding can be raised with the ECB in times of need.
REPUTATION & BRAND
BNG Bank aims to retain the perception its stakeholders have of it as a quasi-public sector body, with excellent creditworthiness and a fine reputation and integrity profile. The bank wants to retain the status of promotional bank. The nature and size of financial losses should be aligned with the perception of its stakeholders and not include any unexpected elements. The Bank is not willing to assume any risks for which it may reasonably be presumed that the risk can harm its integrity and/or reputation. BNG Bank aims to exercise due care in the provision of services and to observe a duty of care towards its clients, and endeavours to provide tailored products and services at competitive rates.

RISKS ACCEPTED BY BNG BANK

In order to achieve its goals, the bank has identified the types of risks it is prepared to accept as a consequence of its strategy and business operations. Three important principles in this respect are:

- BNG Bank aims to provide the best possible services to its stakeholders, now and in the future. The return required by its principal shareholder takes account of the bank’s risk profile. This means that the required return should not result in the bank taking such considerable risk as to jeopardise its ratings and funding position, as a consequence of which it would no longer be able to fulfil its mission in the long term. Subject to certain conditions, the bank seeks a higher return than this external return requirement.
- In addition to a reasonable return for shareholders, low prices are the major focus. BNG Bank is willing to assume the necessary risks, in a controlled manner, that go hand in hand with lending to clients. The Bank is furthermore willing to assume certain additional risks for activities that support lending to clients. Achieving an additional return (based on considerations of risk and return) makes lower prices for clients possible now and in the future. Again, this may not be at the expense of the external ratings and excellent funding position, since that would jeopardise the bank’s mission.

- In the public sector there is a distinction between lending not subject to solvency requirements (zero risk weighted) and lending that is subject to solvency requirements (non zero risk weighted), whether this is caused by guarantees or otherwise. The largest share of the bank's lending (loans and advances) is not subject to solvency requirements. In order to facilitate this lending at the lowest possible rates, it is essential that the bank retains its competitive funding position. This in turn is dependent on the high ratings, forcing the bank to impose restrictions on lending subject to solvency requirements, in view of the related credit risks. As a result of the foregoing, the bank is prepared to accept the following risks.

CREDIT RISK

- Counterparty risk associated with lending subject to solvency requirements to clients. Certain non solvency free parties belong to the public sector and hence are covered by the bank's mission. Additionally, the return on lending subject to solvency requirements can support the competitive rates charged for lending not subject to solvency requirements.
- Risks in terms of financial counterparties associated with activities that support lending (including the hedging of market risks through derivatives).
- Concentration risk in relation to the Dutch public sector is inherent to the business model. A sizeable part of the associated exposure relates to public sector real estate. For the most part, this risk is mitigated by the guarantee funds in the Social Housing sector and Healthcare sector, resulting ultimately in a risk exposure to the Dutch State.
- Investments that support lending to clients.

MARKET RISK

- BNG Bank hedges the interest rate risks arising from lending (loans and advances) and borrowing. However, the bank is willing to assume a certain degree of interest rate risk. On the one hand, a certain maturity mismatch, related to the bank's capital base, is a common source of income for banks (longer lending term than borrowing term). Additionally, BNG Bank strives to achieve additional return with an active interest rate position policy. With regard to (tenor) basis risk the bank assumes a limited position arising from regular funding and lending.
- It is the banks policy to hedge any option positions, unless they support the active interest rate position policy.

It should be noted that BNG Bank is not willing to assume any exposures to foreign exchange risk. Foreign exchange risks are therefore hedged, including FX basis risk. Furthermore, BNG Bank has no trading book and, consequently, does not assume any market risk in connection with trading portfolios.

LIQUIDITY RISK

- As BNG Bank wishes to meet its payment obligations at all times, short-term liquidity risks are only assumed if they are matched by sufficient capital buffers capable of meeting these short-term obligations.
- The public sector consists largely of institutions with a long-term investment horizon. This means that assets frequently have long maturities that can run into decades. As BNG Bank is unable to raise funding for these maturities, a funding mismatch is assumed, provided there are sufficient buffers to be able to refinance at acceptable cost with a high degree of probability also in times of stress. The Bank is also willing to assume the refinancing risk arising from the liquidity requirement related to activities other than lending to its clients, as is the case with investments. The ensuing additional liquidity requirement may not jeopardize the bank's mission.

OPERATIONAL RISK

- Operational risk is inherent in operating a business. BNG Bank accepts that providing tailored services entails additional inherent operational risks with regard to standard products.
- Operational risks are mitigated by weighing the costs against the economic benefits, except in case of compliance with legal and regulatory requirements and duty of care and proper conduct issues, where the risks should be minimised.
- In addition to lending, BNG Bank also provides its clients with other products, such as current account and payment transaction services. Clients benefit considerably from this broader range of services, and this also promotes client loyalty to the bank even if it can be argued that payment transaction services do not significantly contribute to minimising public sector financing costs. The bank is willing to assume operational risks also for these additional products, provided they do not jeopardize its mission.

STRATEGIC RISK

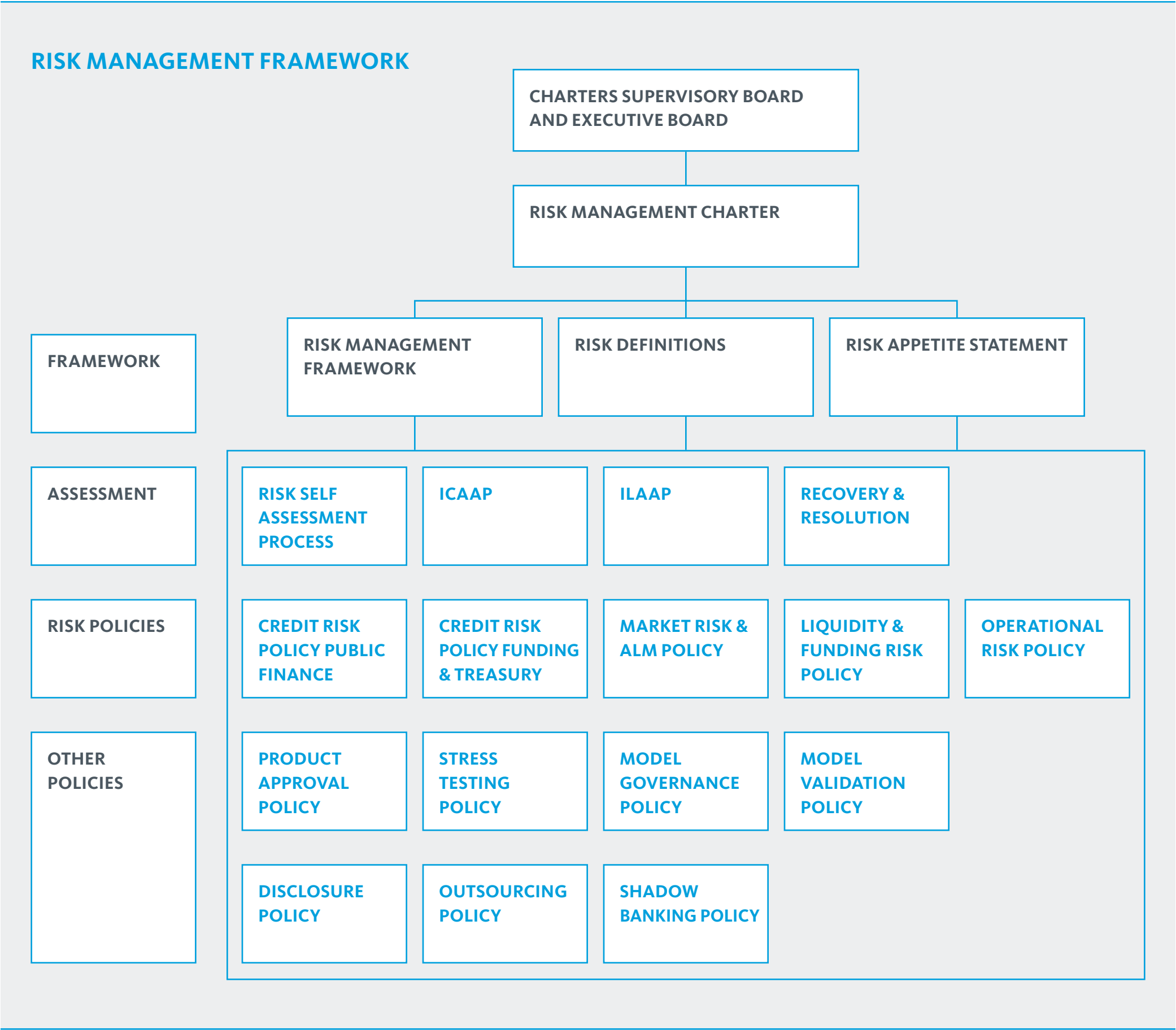
In the case of strategic risk it is more difficult to determine the extent to which risks are assumed, since they are driven by external factors in particular and hence are less easily influenced. However, BNG Bank needs to address the risks that emerge from changes in its environment. It is essential that the bank remains relevant for its clients and is therefore responsive to political and social developments. Sustainability e.g. is a major issue for the bank's clients. A failure to satisfy clients' expectations can adversely affect the bank's market position. BNG Bank actively advances the message that it wishes to partner with clients in relation to sustainability. This carries the reputational risk that it will be unable to adequately fulfil this publicly issued commitment.

In a yearly cycle the Risk Appetite Statement (RAS) is updated based on external as well as internal developments. It is subsequently cascaded into these limits, targets and information figures. These are subject to a monitoring program that is conducted each quarter to determine whether the bank is still within the limits of its risk appetite. The outcomes are reported to the Management Board and Supervisory Board as part of the quarterly Risk Report. Examples of further tools to monitor compliance to the risk of the bank are the yearly In Control Statements by senior management and reports by internal and external independent auditors.

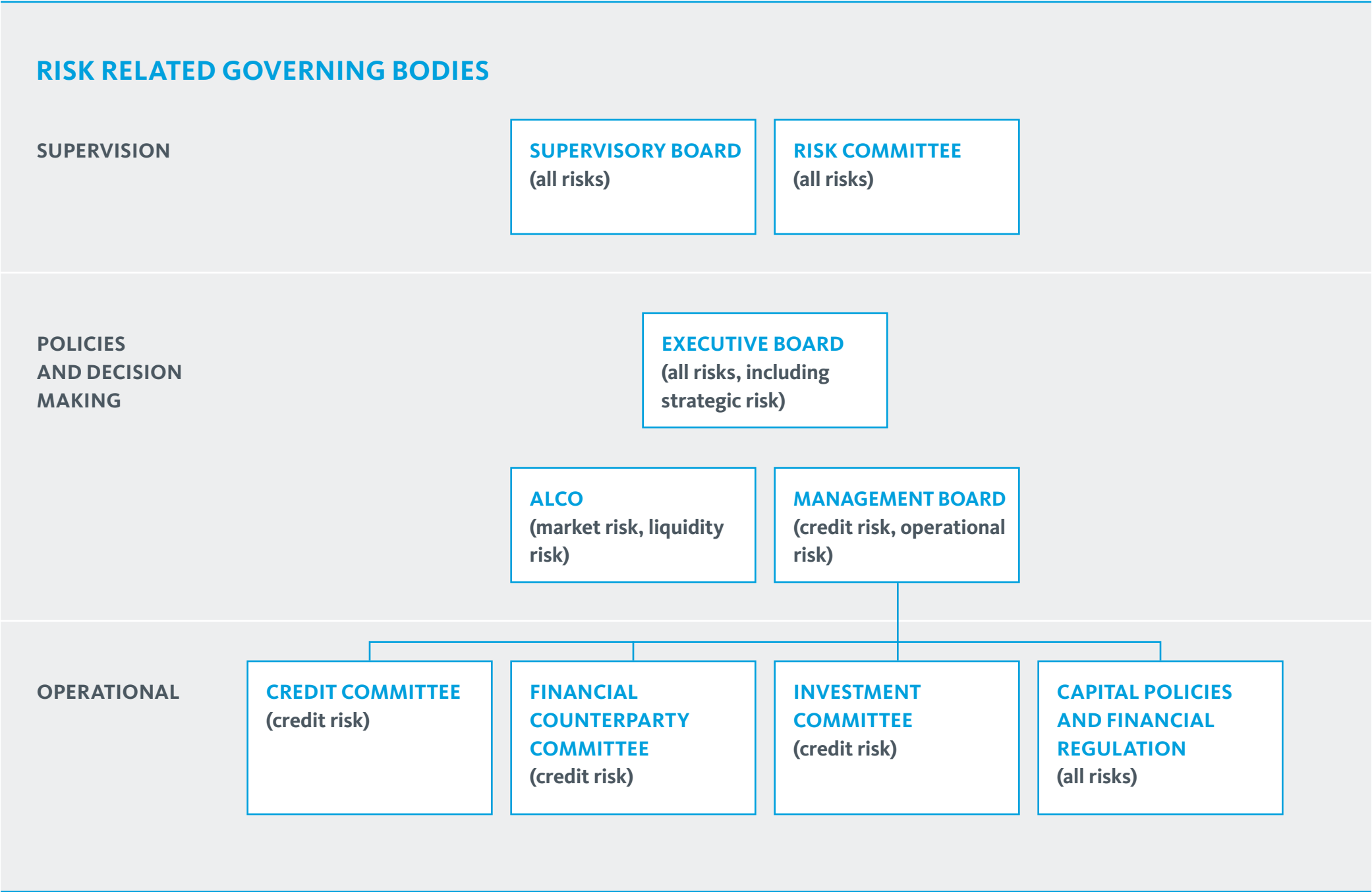
In 2017, the bank operated comfortably within its own risk appetite for market risk, credit risk and liquidity risk. With regard to capital, in 2017, the Bank achieved the expected legal requirement including an internally desired buffer. With regard to operational risk, the bank remained well within the internal norms for operational incidents. The tools available for monitoring operational risk have been improved and development will continue in 2018. In monitoring its strategic risk the bank decided to follow an approach aimed at systematically examining the most important strategic risks in a qualitative way.

Risk management framework

Supplementary to its RAS, BNG Bank applies a Risk Management Framework which provides an overarching framework to monitor and develop the system of limits, targets and reference figures that is used to monitor the risks. This framework defines various risk types, sets out the responsibilities and identifies the various documents and policies that describe the acceptance and management of these risks.



Risk management activities are included in all parts of the organisation of BNG Bank. Therefore, BNG Bank has taken into account a solid level of segregation of duties and focusses on the robust execution of risk management activities. Furthermore, BNG Bank has several governing bodies and risk committees in which risks are considered at different levels. The following figure provides an overview:



The responsibilities of the Supervisory Board and of the Risk Committee of the Supervisory Board relating to risk management are stated in their charters. The responsibilities of the Executive Board are stated in a charter as well. Effectively the Supervisory Board as well as the Executive Board have the responsibility to ascertain that the bank is and will remain within its risk appetite and take appropriate measures if this is no longer the case.

In the Management Board and the Asset & Liability Committee (ALCO), all members of the Executive Board are included. For this reason all decisions made by the Management Board and by ALCO are formal decisions by the Executive Board. Formal decisions are also made in the Executive Board meeting itself. In the context of risk taking this is mostly the case if either an escalation by an operational risk committee or a decision of a strategic nature is at hand. The risk committees that act on an operational level are chaired by a member of the Executive Board. Three of these committees test if the various risk taking activities of the bank are in line with the policies. The fourth committee, Capital Policy and Financial Regulations Committee, advises the Management Board on the capital policy and the allocation of capital to the bank's various business units. In addition, the committee advises on the introduction of new regulations concerning solvency and liquidity as well as on technical financial issues. The committees also advise the Management Board and the ALCO on changes in policies. The operational committees have no mandate to approve policy changes themselves.

The following departments support the Executive Board and the committees in implementing risk policy:

- The Risk Management department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of credit risk, market risk, liquidity risk, operational risk and other risks. The department has a supporting role as regards strategic risk. The department manages the risk policy documents and the Risk Management Framework. The Risk Management department participates in the internal risk committees as well as in the Risk Committee of the Supervisory Board.
- The Credit Risk Assessment department provides independent assessments and advice on risks relating to credit and review proposals for clients and financial counterparties. It also formulates policies with respect to credit risk. As part of the operational lending process it is represented in the bank's Credit Committee, the Financial Counterparties Committee and the Investment Committee. This department is also responsible for the bank's Special Management activities – being the supervision, management and processing of distressed credits.
- The Internal Audit Department (IAD) periodically conducts operational audits in order to evaluate the structure and performance of the bank's risk management systems and assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank and reports to the Executive Board. The IAD also has a reporting line to the Supervisory Board.
- Where necessary, the Compliance & Integrity department is engaged in connection with conduct-related issues. This department monitors compliance with all relevant laws and regulations. The duties, position and authorities of this compliance function are laid down in the BNG Bank Compliance Charter. The Compliance officer reports to the Executive Board and has a reporting line to the Supervisory Board.

The Capital Management department also reports directly to the Executive Board. Apart from managing capital policy and allocation the department also actively monitors and analyses upcoming legislative changes.

Credit risk

DEFINITIONS

- Credit risk is defined as the chance of losses if and when a counterparty is unable to meet its financial and/or other obligations and includes settlement risk, counterparty risk and concentration risk.
- Concentration risk: The overall spread of a bank's exposures over the number or variety of debtors to whom the bank has lent money.
- Counterparty risk: The risk of losses if a party fails to make payments that result from a financial transaction, at the moment those payments are due.
- Settlement risk: The risk that one party will fail to deliver the terms of a contract (or a group of contracts) with another party at the time of settlement.

GOVERNANCE

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

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

The Credit Risk Assessment department and the Risk Management department (at portfolio level) are responsible for assessing, quantifying and reporting the credit risk. In the organisation, these departments operate independently from the Public Finance and Treasury directorates, which are responsible for contracts that include credit risk. The Risk Management department is internally responsible for all Credit Risk policies.

DEVELOPMENTS

Because of IFRS 9, financial institutions needed to develop an impairment model in order to recognize credit losses before an actual credit event occurs. The impairment model is based on a three-stage process which is intended to reflect deterioration in credit risk. BNG Bank assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the asset is determined to have low credit risk at the reporting date. In that case, the Bank

measures impairment under 12-month expected credit losses (ECL). Otherwise, the ECL of an asset is either determined on a 12-month or lifetime basis depending on whether a significant increase in credit risk occurred. On top of the existing internal PD models, BNG Bank developed an overlay model that calculates an add-on for the PD's by using forward looking information (FLI) based on forecasts on macroeconomic variables. By incorporating this add-on, the resulting point-in-time PD has a cyclical component. For its internal capital calculations, BNG Bank assigns a LGD percentage to exposures based on values from the Standardized Approach because statistical data is practically unavailable for its client exposures. Since this is not allowed under IFRS 9, an LGD percentage is calculated based on the very little internal and some available relevant external statistical data. The Bank applies a cash flow model to calculate the estimated exposure at each future year-end. BNG Bank employs different techniques and judgements in the staging assessment. The techniques or 'triggers' differ in nature, being quantitative, qualitative or a backstop indicator. IFRS 9 will be effective as from 1 January 2018.

In 2017 the lean way of working was introduced in the lending process. This led to several organisational changes like working in teams instead of in separate departments. For these organisational changes, separation of duties was monitored by the IAD. The introduction of lean working did not result in significant changes in formal credit risk policies. Any changes in credit risk policies were facilitated by the Risk Management department and approved by the Executive Board.

TOTAL CREDIT RISK EXPOSURE

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

	31/12/2017					
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF- BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST- BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
Cash and balances held with central banks	2,996					2,996
Amounts due from banks	13,997		93			13,904
Financial assets at fair value through the income statement	2,006	842	1,164			
Derivatives	8,982			8,982		
Financial assets available-for-sale	14,110		14,110		0	
Loans and advances	86,008	84,550	1,492			-34
Value adjustments on loans in portfolio hedge accounting	11,813					11,813
Assets held-for-sale	30				30	
Non-financial assets	83					83
TOTAL BALANCE SHEET VALUE	140,025	85,392	16,859	8,982	30	28,762
Contingent liabilities	78	78				
Irrevocable facilities	6,865	6,865				
Revocable facilities	5,839	5,839				
TOTAL OFF-BALANCE SHEET EXPOSURE	12,782	12,782	-	-	-	-
Less: Balance sheet value of derivatives (assets)	-8,982			-8,982		
Credit equivalents for derivatives	3,151			3,151		
TOTAL GROSS EXPOSURE VALUE AFTER PROVISIONS	146,976	98,174	16,859	3,151	30	28,762

	31/12/2016					
	TOTAL EXPOSURE	LOANS AND ADVANCES AND OFF- BALANCE, EXCLUDING INCURRED LOSS PROVISION	INTEREST- BEARING SECURITIES	DERIVATIVES	EQUITY INSTRUMENTS	OTHER
Cash and balances held with central banks	6,417					6,417
Amounts due from banks	11,795		240			11,555
Financial assets at fair value through the income statement	2,350	904	1,446			
Derivatives	15,412			15,412		
Financial assets available-for-sale	15,437		15,412		25	
Loans and advances	87,576	86,151	1,467			-42
Value adjustments on loans in portfolio hedge accounting	14,894					14,894
Assets held-for-sale	0					
Non-financial assets	119					119
TOTAL BALANCE SHEET VALUE	154,000	87,055	18,565	15,412	25	32,943
Contingent liabilities	105	105				
Irrevocable facilities	6,903	6,903				
Revocable facilities	6,998	6,998				
TOTAL OFF-BALANCE SHEET EXPOSURE	14,006	14,006	-	-	-	-
Less: Balance sheet value of derivatives (assets)	-15,412			-15,412		
Credit equivalents for derivatives	4,781			4,781		
TOTAL GROSS EXPOSURE VALUE AFTER PROVISIONS	157,375	101,061	18,565	4,781	25	32,943

As at 31 December 2017, the balance sheet value of the loans granted to or guaranteed by public authorities, the WSW Housing guarantee fund (WSW) and the WfZ Healthcare guarantee fund (WfZ) in the Loans and advances balance sheet item totalled EUR 77.7 billion (2016: EUR 79.3 billion). The contingent liabilities and the irrevocable facilities are explained in the section Other notes to the consolidated financial statements. That section also indicates which parts of the financial assets are not freely disposable.

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

Cumulative changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 297 million negative (2016: EUR 356 million negative) and amounted to EUR 49 million positive over 2017 (2016: EUR 47 million positive). Cumulative changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 11 million positive (2016: EUR 32 million positive) and amounted to EUR 21 million negative for 2017 (2016: EUR 32 million positive). As of 1 January 2016, financial liabilities at fair value through the income statement are recognised on the relevant funding curve including a mark-up for 'own credit risk' in the accounts. Prior to 2016, the credit and liquidity risk spread was consistently set at zero for the purpose of valuation.

CONCENTRATION RISK

Regarding of concentration risk, the bank differentiates between:

- country risk with a distinction between domestic and foreign risk;
- sector risk;
- risk for individual parties with a distinction between clients and financial counterparties.

Concentration risk is monitored by the first line as well as independently by the second line Risk Management department. Reports are submitted to the various committees and to the Management Board as the overarching authority. All policy decisions are taken by the Management Board, usually based on a recommendation by one of the sub-committees.

Alongside the risk concentration for solvency-free lending to the Dutch and other European governments, risk concentrations also exist in the market segments with exposures subject to solvency requirements, e.g. university hospitals. Almost all exposures to public sector entities subject to solvency requirements are secured by means of collateral or other securities. The other exposures subject to solvency requirements relate to financial institutions. Regarding concentration risk, three (2016: five) of these financial institutions together represent an exposure of more than 10% of the Tier 1 capital.

DOMESTIC COUNTRY RISK

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

FOREIGN COUNTRY RISK

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

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

After the creditworthiness of certain countries in the Eurozone deteriorated, the bank has gradually reduced its positions in these countries. This was mainly realised by expiration of exposures without replacing them with new exposures. At the end of 2017, the bank's foreign exposure (expressed in balance sheet value) totalled EUR 24.1 billion (2016: EUR 23.8 billion), of which 11.6 billion consisted of long-term exposures (2016: EUR 13.1 billion). This represents 8.3% of the balance sheet total (2016: 8.5%).

LONG-TERM FOREIGN EXPOSURE

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

	31/12/2017						
	AAA	AA	A	BBB	NON- INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational institutions	464	230				694	730
Multilateral development banks	660					660	733
Austria		653				653	794
Belgium		400		145		545	689
Denmark	90					90	91
Finland		676				676	784
France	457	912	100		46	1,515	1,859
Germany	1,385	70				1,455	1,802
Italy		38	26	272	59	395	443
Portugal			54	56	180	290	281
Spain		228	372	352	115	1,067	1,111
Switzerland			106			106	123
United Kingdom	542	341	280	258	79	1,500	2,117
United States	21					21	21
TOTAL	3,619	3,548	938	1,083	479	9,667	11,578

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

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including Covered bonds and RMBS transactions. The non-investment grade exposure in France and the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures in December 2017 amounted to EUR 474 million (year-end 2016: EUR 544 million).

SECTOR RISK

Sector-specific policies and annual internal targets are used for lending without direct or indirect guarantees from the Dutch State. These sector targets relate to both maximum concentrations on the balance sheet and commercial targets for new transactions according to the bank's Annual Plan. Active portfolio management is positioned within the Public Finance department. Realisation of the risk targets as well as the commercial targets is reported to the Management Board on a quarterly basis by the Risk Management department. The concentration risk per sector is also part of the Risk Management economic capital model used to assess the capital adequacy allocation.

INDIVIDUAL STATUTORY MARKET PARTIES

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

INDIVIDUAL FINANCIAL COUNTERPARTIES

Transactions with these parties primarily consist of interest rate and currency swaps that are undertaken to mitigate market risks. Money market exposures can also apply. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it is willing to transact. This limits the number of available parties. As a consequence, the number of transactions with approved parties is high. Daily exchange of collateral helps to mitigate the credit risk from these parties with respect to derivatives in terms of market value, resulting in some operational risks. Default can also lead to market risks. Although the derivatives are measured at market value and the value of the collateral in this type of situation will be equal or close to the market value, the market is subject to fluctuations while the derivatives need to be rearranged with another party. The Financial Counterparties Committee limits and monitors positions with financial counterparties. Since 2016 the bank is clearing parts of its derivatives centrally. The bank uses five clearing members for this purpose. Central clearing has resulted in a shift in concentration risk from individual financial counterparties to the clearing members.

COUNTERPARTY RISK

- The bank is exposed to counterparty risk in relation to public sector entities (loans and advances), financial counterparties (derivatives) and issuers of interest-bearing securities (IBS) in which the bank has invested. BNG Bank applies the following credit risk mitigation measures:
- Because loans subject to solvency requirements are often extended under (partial) guarantees or suretyships, on balance the loan remains (partly) solvency-free for BNG Bank (see the section on statutory market parties). The guarantees are provided by a central or local authority or by the guarantee funds WSW and WfZ.
- Other forms of security, such as pledges and mortgages are used to minimise possible losses due to credit risks. The potential risk reducing effect, however, is not used in the calculation of the regulatory capital requirement.
- Bilateral netting and collateral agreements based on a daily collateral exchange with financial counterparties. See also the section ‘Financial counterparties’.

STATUTORY MARKET PARTIES

The bank’s Articles of Association limit lending to parties subject to some form of government involvement. As a result, the credit portfolio is largely comprised of solvency-free loans and advances, provided to or guaranteed by the government. In the case of the guarantee funds WSW and WfZ, the credit risk assessment of guaranteed institutions is carried out expressly by the guarantee fund concerned next to the abovementioned assessment by the bank. BNG Bank actively follows the developments within the sectors in which it operates. This also applies to (the operation of) the institutions issuing the individual guarantees or suretyships. In addition, BNG Bank maintains contacts with relevant parties through a variety of channels, including conferences, seminars and bilateral talks. Lending subject to solvency requirements are preceded by an extensive creditworthiness analysis. The responsible team within the Public Finance department draws up the credit proposal. This contains a detailed assessment of the creditworthiness of the client concerned, based in part on the bank’s own internal rating model. The greater the degree of tailoring involved in a transaction, the more intensive the operational risk procedure is followed. To that end, the bank has implemented a tailor-made assessment process in order to keep the complexity manageable for both the client and the bank.

- The Credit Risk Assessment department prepares an independent second opinion on the credit proposal.
- The intensity of the decision-making process is determined based on the proposed rating and the size of the loan. The bank's risk appetite also determines the level of maximum credit risk the bank is prepared to accept for the client in question. The credit proposal must be in accordance with this maximum risk.
- The Credit Committee decides whether the credit can be accepted. The Credit Committee is chaired by a member of the Executive Board and includes representation from the Public Finance directorate, the Credit Risk Assessment department and – where applicable – the Treasury department. If the Credit Committee is unable to form a unanimous opinion, the decision on the proposal is escalated to the Executive Board. A delegation model applies to loans and advances of limited scale or risk, in which authority to make decisions lies with the Director of Public Finance and the Credit Risk Assessment Manager.

Following the approval of a credit proposal and its acceptance by the client, the credit management process starts. This includes the following elements:

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

Despite the virtual absence of credit risk within this solvency-free portfolio, in 2016 the bank has set up an additional process for the assessment and review of the creditworthiness of parties that have only been granted loans and advances that are directly or indirectly guaranteed by the Dutch State. The bank's internal rating models have been adapted to facilitate these assessments, thus providing consistency with the existing assessment for non solvency free lending. During 2017 these assessments have taken place and a process of fine tuning of policies and processes is in its final stage.

CREDIT MODELS

Most of BNG Bank's clients do not have an external rating. The bank makes their creditworthiness transparent using internally developed rating models. Given the 'low default' character of the loan portfolio, expert models are utilised. The models are used for internal assessment of creditworthiness, but not for capital calculations under Pillar I, where the bank uses the Standardised Approach Models are in use for the following sectors:

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

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

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

FORBORN EXPOSURES

Forbearance concerns credit agreements whose credit conditions have been amended in the debtor's favour as a result of the debtor's precarious financial position, so as to enable it to fulfil its obligations. The following table does not include interest-bearing securities, since the bank is unable to change the conditions of such securities.

	31/12/2017		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	% OF TOTAL	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE
SOLVENCY-FREE LOANS AND ADVANCES	86,699	88%	–
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
– 1 through 11	10,567	11%	–
– 12 through 13	363	0%	–
– 14 through 17	507	1%	236
– 18 through 19	38	0%	6
	11,475	12%	242
TOTAL	98,174	100%	242

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

The financial assets whose contractual terms have changed as a result of the debtor's unfavourable financial position amounted to EUR 242 million as at 31 December 2017 (year-end 2016: EUR 191 million). The share of forborne exposure in the total loan portfolio is 0.25% (year-end 2016: 0.19%) and concerns 4 debtors (year-end 2016: 7 debtors). Of these, 3 debtors were classified as forborne in 2017 with an outstanding exposure of EUR 172 million and 1 debtor was already forborne in 2016 with an outstanding exposure of EUR 70 million.

NON-PERFORMING AND IMPAIRED EXPOSURES

Non-performing exposures are exposures:

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

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

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

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

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

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

	31/12/2017					
	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	OF WHICH NON- PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES	INTEREST- BEARING SECURITIES	OF WHICH NON- PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES
Amounts due from banks				93	–	–
Financial assets at fair value through the income statement	842	–	–	1,164	–	–
Financial assets available-for-sale				14,110	–	–
Loans and advances	84,550	38	29	1,492	14	14
TOTAL BALANCE SHEET VALUE	85,392	38	29	16,859	14	14
Contingent liabilities	78	–				
Irrevocable facilities	6,865	–				
Revocable facilities	5,839	–				
TOTAL EXPOSURE	98,174	38	29	16,859	14	14

	31/12/2016					
	LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	OF WHICH NON- PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES	INTEREST- BEARING SECURITIES	OF WHICH NON- PERFORMING EXPOSURES	OF WHICH IMPAIRED EXPOSURES
Amounts due from banks				240	–	–
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	–				
TOTAL EXPOSURE	101,061	137	129	18,565	16	16

The strong decrease in non-performing exposure is largely attributable to the fact that one of the bank's clients – which had a non-performing exposure of EUR 91 million at the end of 2016 – became performing in 2017, following the restructuring and partial redemption of his loan portfolio.

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

	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	–	0
Shift from performing to non-performing exposure	12	91
Shift from non-performing to performing exposure	–104	–17
Repayments on and settlement of non-performing exposure	–7	–64
CLOSING BALANCE	38	137

An individual provision was made for the outstanding exposure relating to one client that became non-performing in 2017. With regard to two clients, the individual provision was used to settle the exposure. Movement in the incurred loss provision is explained in note 6.

LOANS AND ADVANCES PROVISIONING POLICY

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

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

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

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

	31/12/2017	31/12/2016
Less than 31 days	1	0
31 through 60 days	–	–
61 through 90 days	–	–
Over 90 days	3	0
CLOSING BALANCE	4	0

IMPAIRMENTS

The impairments of financial assets are explained in note 32.

EXTERNAL RATING

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

FINANCIAL COUNTERPARTIES

The bank only conducts business with financial counterparties that have been rated by an external agency. Financial counterparties are periodically assessed for creditworthiness. This analysis includes an assessment of the internal rating. A limit is subsequently set or adjusted accordingly. The market risks associated with these parties are mitigated primarily through derivative transactions.

The credit risk of derivative transactions is relatively small, despite the fact that principal amounts totalled EUR 224 billion at year-end 2017 (2016: EUR 240 billion). With the exception of

currency derivatives, these contractual principal amounts merely serve as accounting quantities and do not reflect the size of cash flows or the risk associated with the derivatives. The credit equivalent of the derivatives portfolio serves as a more accurate indicator in this regard. The credit risk is expressed in terms of credit equivalents, in accordance with central bank guidelines. The credit equivalent consists of the market value plus an add-on for future credit risk. Contracts with a positive value – where contractual default by the counterparty would cause the bank to miss out on revenue – are relevant in this regard.

BNG Bank determines this value using the Mark-to-Market (MtM) method. The current replacement cost is calculated by including collateral received or posted. In addition, the principal amounts are multiplied by percentages based on the specific product and its maturity period in order to determine the potential credit risk ('add-on'). The sum of these two values (credit equivalent) indicates the net exposure to credit risk.

These figures reflect netting of the positive and negative market values of contracts per counterparty.

	31/12/2017			31/12/2016		
	MTM VALUE	ADD-ON	TOTAL	MTM VALUE	ADD-ON	TOTAL
CREDIT EQUIVALENTS OF DERIVATIVES ON THE ASSET SIDE OF THE BALANCE SHEET						
Interest contracts	1,411	833	2,244	1,242	810	2,052
Currency contracts	9	898	907	26	1,140	1,166
TOTAL	1,420	1,731	3,151	1,268	1,950	3,218

At year-end 2017, the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1,327 million (2016: EUR 1,621 million).

In order to reduce credit risk, netting agreements are agreed upon with financial counterparties with which BNG Bank actively concludes derivatives transactions. In addition, 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 changing market circumstances, market practices and regulatory changes. The following table shows the gross positions before balance sheet netting and if the collateral agreements were taken into account.

	31/12/2017		
	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	9,323	22,211	-12,888
Gross value of the financial assets and liabilities to be netted	341	341	–
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	8,982	21,870	-12,888
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	7,566	7,566	–
EXPOSURE BEFORE COLLATERAL	1,416	14,304	-12,888
Value of financial collateral that does not comply with IAS 32 for netting purposes	369	14,326	-13,957
NET EXPOSURE	1,047	-22	1,069

	31/12/2016		
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance sheet netting	15,559	24,927	-9,368
Gross value of the financial assets and liabilities to be netted	147	147	–
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 year-end 2017, the collateral posted amounted to EUR 14.3 billion (2016: EUR 11.8 billion). The deterioration of BNG Bank's rating by three notches would increase this amount by EUR 10 million (2016: EUR 35 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, higher collateral obligations.

COUNTERPARTIES WITH INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

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

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

	31/12/2017						
	AAA	AA	A	BBB	NON- INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	5,086	2,897		475	46	8,504	10,162
Level I B – Covered bonds	1,061	70				1,131	1,208
Level II A – Government/ Supranational		56		6		62	100
Level II B – Corporates			25			25	28
Level II B – RMBS	1,261					1,261	1,276
	7,408	3,023	25	481	46	10,983	12,774
ALM PORTFOLIO							
RMBS		196	301	137	69	703	634
Covered bonds			70			70	71
ABS	68		164	33	59	324	324
NHG	920		419	2		1,341	1,346
Other	47	330	403	218	120	1,118	1,713
	1,035	526	1,357	390	248	3,556	4,088
TOTAL	8,443	3,549	1,382	871	294	14,539	16,862

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

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

TRANSFER OF FINANCIAL ASSETS WITHOUT DERECOGNITION

At year-end 2017 and 2016, BNG Bank had transferred no interest-bearing securities in repurchase transactions without derecognition. At year-end 2017, BNG Bank has no financial assets in its portfolio that were transferred and derecognised and in which it has a continuing involvement. Financial assets are not removed from the balance sheet if BNG Bank retains the credit risks and the rights to the underlying cash flows.

SETTLEMENT RISK

Exposure to settlement risks is limited to transactions with financial counterparties. Settlement risk is potentially high for those parties because of the relatively large size of the bank's benchmark issues in foreign currencies. Netting and collateral agreements concluded with those parties serve to limit settlement risks resulting from the mutual offsetting of payments. Control measures throughout the operational process serve to further mitigate the settlement risk.

The Bank Recovery and Resolution Directive (BRRD) that was introduced in Dutch law in November 2015, has included protection for settlement and payment systems in case of resolution of a bank, effectively reducing the settlement risk in parts of the financial system. An extensive review of the internal control measures was launched in 2016. Several follow up actions to improve practical mitigation have been implemented in 2017 and evaluation of further possible actions will continue in 2018. Capital allocation for settlement risk is based on an assessment of the likelihood of a possible loss from settlement risk and is updated yearly as part of the Internal Capital Adequacy Assessment Process (ICAAP) process.

Market risk

DEFINITIONS

Market risk is defined as existing or future threats to the institution's capital and results as a result of market price fluctuations. There are several forms of market risk: interest rate risk, foreign exchange risk, volatility risk and spread risk.

- Interest rate risk: The current or prospective risk to earnings and capital arising from adverse movements in interest rates.
- Foreign exchange: The risk to annual results and capital arising from unfavourable exchange rate fluctuations.
- Volatility risk: The risk to annual results and capital arising from adverse movements in the implied volatility of market interest rates or currencies. This risk only applies to products with types of optionality, such as caps and floors.

Spread risk: The risk to annual results and capital arising from unfavourable credit risk spread fluctuations and unfavourable liquidity risk spread fluctuations.

GOVERNANCE

The Treasury and Capital Markets directorate is the 'first line of defence' and responsible for day-to-day market risk management. This directorate is responsible for hedging the market risks resulting from commercial activities. Additionally, the Treasury department has a mandate to adopt an interest rate risk position within the limits imposed by the Asset & Liability Committee (ALCO). The mandate for the ALCO to set limits is restricted by the capital that is explicitly allocated for this purpose. Stress scenarios are used to assess continuously whether this capital is sufficient.

The Risk Management department is the 'second line of defence' and responsible for the independent monitoring of market risk and checks daily whether the risk positions are within their limits. The department prepares reports for the ALCO and the Treasury department and provides risks analyses and advice, both proactively and on request. By participating in the product approval process it also plays an important role in decisions to assume new market risks caused by new activities.

The ALCO is responsible for implementing the market risk policy. The ALCO consists of the Executive Board members, the Managing Director of Treasury and Capital Markets, The Head of Risk Management, The Company Secretary and the Senior economist, supplemented with other participants depending on the agenda.

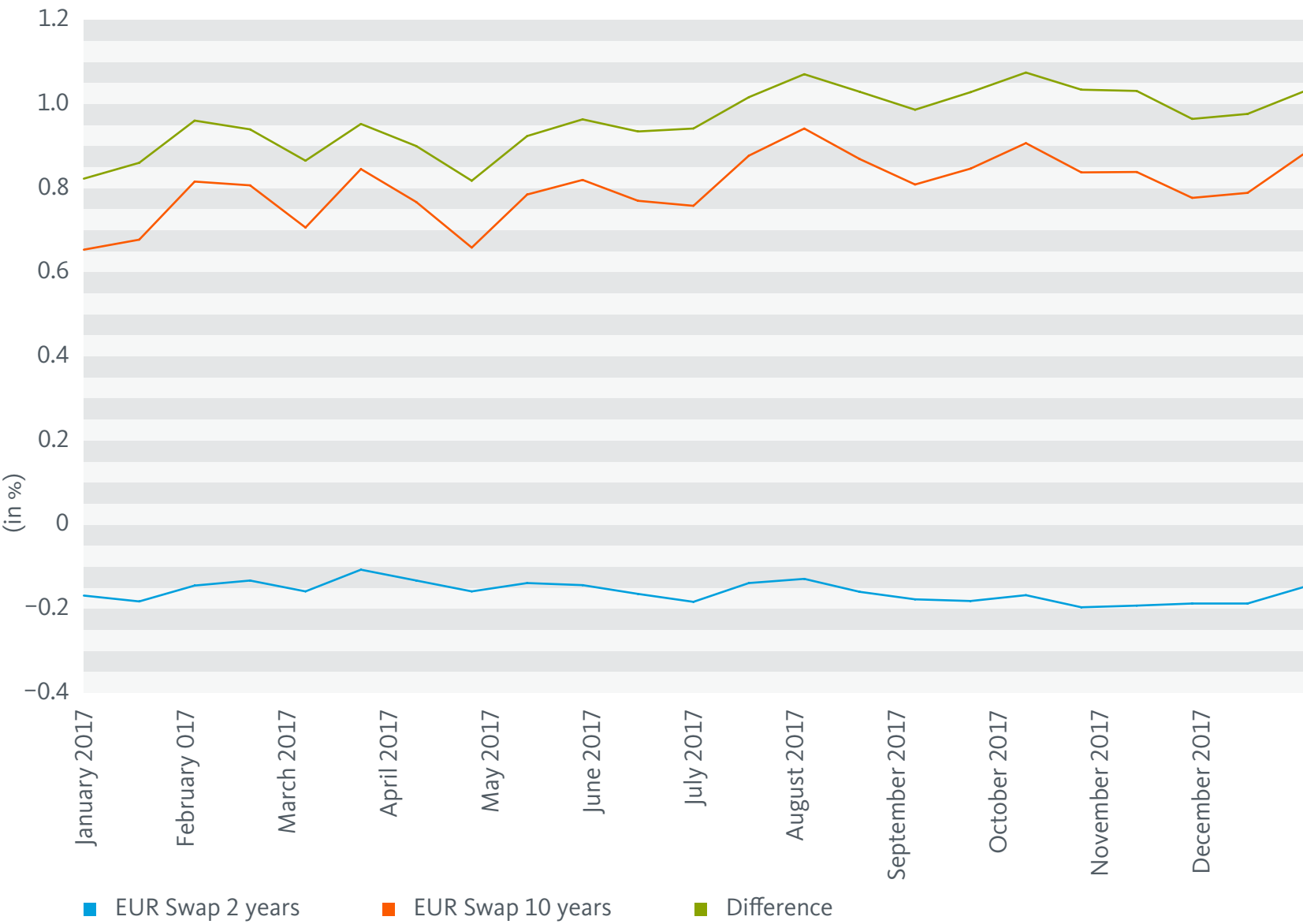
DEVELOPMENTS

The bank opted for a restrictive interest rate risk position in 2017. Because of an expected rise in interest rates, the interest rate position, measured in basis point sensitivity, was lower

throughout the year compared to the long-term benchmark applied by the bank. The actual interest rate risk position took into account that the likelihood of an additional return in terms of market value due to a stable trend or further decline in interest rates did not sufficiently compensate for the possibly much larger loss of market value if interest rates would rise.

The benchmark reflects a continuously neutral investment of equity position in 10 years Dutch Government Bonds, which is in line with the required return of the shareholders. Compared to this the bank's interest rate risk position in terms of mark to market outperformed the benchmark because the interest rates rose as expected.

EUROPEAN SWAP CURVE



Regarding its interest rate risk framework, the bank improved the measurement and monitoring of the credit spread risk. Furthermore, an interest rate gap analysis was designed and implemented in 2017, to complement the existing interest rate risk measures. Finally, a reverse stress scenario was added to the current parallel and non-parallel stress scenarios to determine under which circumstances the market risk limits set by the ALCO would be breached. In February the bank participated in the Interest Rate Risk in the Banking Book (IRRBB) sensitivity exercise that was conducted by the ECB. The conclusion was that the bank was well capitalised to survive this stress scenario.

INTEREST RATE RISK

The bank's interest rate risk position is determined based on interest rates excluding credit and liquidity risk spreads and discounts. This means that changes in these spreads and discounts are not taken into account. The interest rate position in the banking book is internally managed in books for Treasury and the ALCO. The interest rate risk within the margin books (containing the lending and funding activities) and ALCO book (containing the active position) are transferred to the Treasury book by using internal swaps. The net interest rate risk in the Treasury book is externally hedged. Working on the basis of market forecasts from Treasury and Economic Research, the ALCO periodically determines the bank's interest rate outlook and defines – within the predetermined frameworks – the interest rate position and the limits and early warnings (target) levels within which the Treasury and Capital Markets directorate must operate.

The bank manages its interest rate position by using principal risk measures, which are monitored by the Risk Management department. The principal risk measure to monitor and manage interest rate risk applied by BNG Bank is the sensitivity (delta) of the economic value of the bank's equity to changes in the interest-rate curve. The delta is determined for several maturity intervals on the interest rate curve and is reported daily. The ALCO manages the interest rate risk position based on the delta for each maturity interval.

In addition, the bank carries out daily and monthly scenario analyses on the economic value of the bank's equity. These parallel and non-parallel stress scenario analyses are performed to cover both external requirements as well internal required levels.

Furthermore, BNG Bank analyses the basis risk between tenors and now uses an interest rate gap report. Next to that, the impact of interest rate stress scenarios on the interest results (Earnings at Risk) of the bank is monitored. All these interest rate risk measures complement each other and ensure the transparency and manageability of risks.

Any breach of a limit must be reported to the ALCO. The ALCO decides whether action should be taken immediately to adjust the interest rate position to a position within the limit or to authorize the limit breach for a certain period of time. Limits are set for the delta of the economic value per maturity interval and the scenario analysis outcomes. Early warning levels are set for the internal Earnings at Risk (EAR) scenarios; the (tenor) basis risks and the interest rate gap analysis for which no direct action from the ALCO is required. The bank also sees to it that the outlier criterion is not exceeded, by applying an internal threshold value which serves as an early warning. The outlier criterion is prescribed by the Basel regulations, where it is used to express the maximum relationship between market risk and equity. In this context, the interest rate risk is measured under extreme conditions with an instantaneous parallel interest rate shock of plus or minus 200 basis points. The limits with respect to interest rate risk were not breached in 2017.

BNG Bank measures the sensitivity of its interest rate result using the EAR measure. The EAR is for BNG Bank an appropriate measure because it monitors the effect of an interest rate shock scenario on an accrual basis. The table below outlines the effect of a minus 180 basis points gradual parallel interest rate shock for the 1 year and 2 year horizon at the end of 2017.

	2017	2016
EARNINGS AT RISK		
(in EUR million)		
Horizon		
1Y	-16	-13
2Y	-86	-54

As the fair value items through profit & loss and for available for sale items are fully economically hedged for interest rate risk there is no sensitivity of these items on the economic value of equity. There is no material presence of early redemption options in BNG Bank’s regular loan portfolio. Likewise, there is no material exposure in mortgages and the bank does not attract savings from private individuals. Consequently there is no necessity to model client behaviour in its interest rate risk models.

FOREIGN EXCHANGE RISK

The bank obtains a large portion of its funding in foreign currencies and is thus exposed to major potential foreign exchange fluctuations. The bank’s policy specifies that all foreign exchange risks should be hedged in full and executes this policy. Incidentally, foreign exchange positions may occur in certain cases where it is not cost-efficient to hedge the risk. The foreign exchange risk of these minor positions is monitored on a daily basis, subject to limits. During 2017 these limits were not breached.

VOLATILITY RISK

In managing its interest rate exposure, the bank has allowed a very limited range for assuming volatility risk to support the active interest rate position. This range is limited and monitored by the Risk Management department on a daily basis. During 2017 Treasury did not assume any additional volatility risk to support the active interest rate position. With regard to its other activities, BNG Bank’s policy specifies that the volatility risks for new products should be hedged in full. There is still some minor exposure to volatility risks with a legacy character.

SPREAD RISK

The economic value of BNG Bank’s equity is determined over its total portfolio of assets and liabilities. Both assets and liabilities are valued on the basis of an interest rate curve made up of market-based swap rates plus credit and liquidity risk spreads. In case of cross-currency swaps the cross-currency basis spread is included in the market value. The impact of changes in these spreads and is monitored on a daily basis. For a small part of the fair value instruments accounted through profit and loss the ALCO has set a warning level on the spread delta.

Liquidity and funding risk

DEFINITIONS

Liquidity risk is defined as the existing or future threat to the institution's capital and results due to the possibility that at any moment it will not be able to fulfil its payment obligations without incurring any unacceptable costs or losses.

- Short-term liquidity risk: The risk that the bank will not be able to attract sufficient funds to meet its payment obligations.
- Refinancing or long-term liquidity: The risk that the bank will not, as a result of its own creditworthiness, be able to attract any (or sufficient) funds against prices that won't jeopardise its continuity.

GOVERNANCE

The Treasury and Capital Markets directorate is the 'first line of defence' and responsible for the day-to-day liquidity and funding risk management. They are responsible to attract funding resulting from commercial activities. Treasury is mandated to adopt a liquidity risk position within the limits and triggers imposed by the ALCO. Stress scenarios are used to continually assess the liquidity risks, in order to determine whether the liquidity and funding is sufficient.

The Risk Management department is the 'second line of defence' and responsible for the independent monitoring of liquidity risk and daily checks whether the bank remains within its limits and triggers set by the ALCO. The Risk Management department independently reports to the ALCO and to Treasury on the use of predetermined limits and provides risks analyses and advice, both proactively and on request. Liquidity and funding risk measures such as liquidity gap analysis, contingency funding plan, and stress scenarios regarding the survival period are monitored against limits or triggers, both short term and long term. The Risk management department is also instrumental in the decision to accept liquidity and funding risks as part of the product approval process.

If liquidity limits or triggers are breached, the Contingency Funding Plan is enforced. Additional ALCO meetings, temporary procedures for more intensive liquidity management and temporary control of liquidity management by the liquidity contingency team are the main elements of this plan.

DEVELOPMENTS

In the last quarter of 2017, BNG Bank decided to continue long term prefunding, by exceeding the funding target for 2017 of EUR 15.6 billion by EUR 1.3 billion. The main reasons are funding of collateral and attractive pricing of liquidity. Regarding alternative funding, negotiations on a new

Global Loan Facility were finalised in during the last quarter. This Global Loan of EUR 300 million is provided by Council of Europe.

In 2017 BNG Bank has improved the Internal Liquidity Adequacy Assessment Proces (ILAAP) stress scenarios by adding more scenarios including a reverse stress scenario, remodelling collateral outflows and fine-tuning other input parameters to get a better insight in the bank's liquidity position. In addition, ALCO reporting was improved by implementing a monthly liquidity risk dashboard. Furthermore, the bank improved the measurement, reporting and monitoring of the funding spread risk. Funding spread risk is the accrual margin change due to increased funding spreads which cannot be passed through to the spreads of new assets. This risk is caused by the liquidity mismatch between assets and liabilities. The ALCO has set an early warning level for the 1 year horizon funding spread risk.

Finally, the bank is working on a forward-looking model to monitor the Net Stable Funding Ratio (NSFR) more closely.

LIQUIDITY

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

The limits on funding deficits in the short term and in the long term are an explicit part of the risk appetite and directly determine the level of the principal liquidity limits. BNG Bank also calculates survival periods. The survival period is the period in which the standard liquidity buffers are sufficient for absorbing the consequences of a stress scenario. Survival periods are determined under a range of stress scenarios. During 2017, the survival periods indicated by the stress tests met the requirement laid down in the risk appetite to be able to endure nine months without access to capital market funding. During this period, the bank is also capable to provide its core client groups with liquidity, fulfilling its ambition to assist its clients even in difficult times.

The bank believes that during 2017 its liquidity management was adequate and that the strength of the bank's liquidity position is both amply sufficient and in compliance with the regulatory standards and limits set by the ALCO.

FUNDING

BNG Bank distinguishes between short-term and long-term funding. The majority of funding is from institutional capital markets. The bank maintains a number of programmes that enables it to have access to liquidity at all times at competitive levels. The bank pursues pro-active investor relations which supports these efforts.

The following resources are used for short-term funding:

- Commercial Paper: the bank has a European Commercial Paper (ECP) programme of EUR 20 billion and a US Commercial Paper (USCP) programme of USD 15 billion. Under normal circumstances, a substantial margin is maintained between the maximum size allowed under the programme and the bank's actual usage;
- Repurchase transactions with interbank parties under a Global Master Repurchase Agreement (GMRA) where the bank's liquidity portfolio is used to pledge as collateral;
- Deposits from institutional money market parties.

The bank does not enter into transactions with private individuals and therefore has practically no retail deposits. The following programmes are available for long-term funding:

- the Debt Issuance Programme (DIP) of EUR 100 billion. Socially Responsible Investing (SRI) bonds are also issued under this programme;
- the Kangaroo-Kauri Programme, specifically for the Australian and New Zealand market, of AUD 10 billion;
- the Samurai shelf registration and Uridashi shelf registration, specifically for Japanese investors;
- the Namen-Schuld-Verschreibungen (NSV), under German Law;
- and Private loan agreements.

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

- Global loans from the European Investment Bank and the Council of Europe development Bank;
- Guaranteed Investment Contracts (GICs).

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

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

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

	31/12/2017				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	2,996				2,996
Amounts due from banks	13,900	74	26	3	14,003
Financial assets at fair value through the income statement	17	67	383	2,204	2,671
Financial assets available-for-sale	224	410	5,202	9,382	15,218
Loans and advances	6,338	9,070	35,827	56,146	107,381
Other assets	18	1			19
Assets held-for-sale		30			30
TOTAL FINANCIAL ASSETS (EXCLUDING DERIVATIVES)	23,493	9,652	41,438	67,735	142,318
Amounts due to banks	-1,848	-164	-92	-334	-2,438
Financial liabilities at fair value through the income statement	-26	-168	-196	-716	-1,106
Current tax liability		-17			-17
Debt securities	-9,082	-17,413	-48,125	-41,446	-116,066
Funds entrusted	-2,004	-191	-2,528	-1,255	-5,978
Subordinated debt	-1		-3	-43	-47
Other liabilities		-43			-43
TOTAL FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)	-12,961	-17,996	-50,944	-43,794	-125,695
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	3,708	4,384	11,519	19,874	39,485
Assets amounts payable	-3,081	-2,786	-6,846	-13,198	-25,911
DERIVATIVES STATED AS ASSETS	627	1,598	4,673	6,676	13,574
Liabilities amounts receivable	7,295	11,455	21,291	14,987	55,028
Liabilities amounts payable	-8,053	-13,603	-29,409	-25,502	-76,567
DERIVATIVES STATED AS LIABILITIES	-758	-2,148	-8,118	-10,515	-21,539
GRAND TOTAL	10,401	-8,894	-12,951	20,102	8,658

	31/12/2016				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances held with central banks	6,417				6,417
Amounts due from banks	11,670	30	99	4	11,803
Financial assets at fair value through the income statement	72	64	418	2,525	3,079
Financial assets available-for-sale	201	844	6,142	9,369	16,556
Loans and advances	6,737	8,615	36,103	58,808	110,263
Other assets	56				56
TOTAL FINANCIAL ASSETS (EXCLUDING DERIVATIVES)	25,153	9,553	42,762	70,706	148,174
Amounts due to banks	-3,288	-196	-10	-44	-3,538
Financial liabilities at fair value through the income statement	-3	-124	-320	-1,031	-1,478
Current tax liability		-32			-32
Debt securities	-14,619	-15,727	-51,414	-42,309	-124,069
Funds entrusted	-3,372	-435	-2,806	-1,551	-8,164
Subordinated debt	-1	-1	-3	-44	-49
Other liabilities	-97				-97
TOTAL FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)	-21,380	-16,515	-54,553	-44,979	-137,427
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	9,799	14,136	32,948	20,793	77,676
Assets amounts payable	-8,122	-11,201	-24,054	-12,038	-55,415
DERIVATIVES STATED AS ASSETS	1,677	2,935	8,894	8,755	22,261
Liabilities amounts receivable	3,279	1,479	5,490	14,862	25,110
Liabilities amounts payable	-4,099	-3,988	-14,401	-27,932	-50,420
DERIVATIVES STATED AS LIABILITIES	-820	-2,509	-8,911	-13,070	-25,310
GRAND TOTAL	4,630	-6,536	-11,808	21,412	7,698

MATURITY ANALYSIS OF FINANCIAL ASSETS AND ENCUMBERED AND UNENCUMBERED FINANCIAL ASSETS

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

			31/12/2017		
			ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances held with central banks			–	2,996	2,996
Amounts due from banks			13,892	105	13,997
Financial assets at fair value through the income statement			–	2,006	2,006
Derivatives			–	8,982	8,982
Financial assets available-for-sale			357	13,753	14,110
Loans and advances			482	85,526	86,008
Value adjustments on loans in portfolio hedge accounting			–	11,813	11,813
Assets held for sale			–	30	30
Non-financial assets			–	83	83
TOTAL			14,731	125,294	140,025
AVERAGE (TOTAL) IN 2017			15,875	136,528	152,403

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

Operational risk

DEFINITIONS

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

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

GOVERNANCE

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

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

The Internal Audit Department (IAD) conducts independent assessments in supplement to the risk analyses by the departments Risk Management, Compliance and Security and the activities of the Internal Control department, in order to determine the existence and effect of control

measures. The IAD thereby constitutes the ‘third line of defence’ and reports to the Executive Board. Each year, the managing directors and the other direct reports inform the Executive Board whether they are in control of the processes and risks for which they are responsible.

DEVELOPMENTS

The focus on data quality has led to the introduction of the Data and Information Management department in 2016. This department is, amongst others, responsible for developing a joint data warehouse and has a leading role in the implementation of data governance processes. Business departments have a major responsibility for data quality. The aim of the data warehouse is to meet internal information needs, but also to comply with rapidly evolving external requirements like the Principles for Effective Risk Data Aggregation and Reporting (PERDARR). Often strict deadlines apply to requests for information both in normal and in times of stress or crisis. The bank must be able to produce risk information quickly and correctly.

The pilot within the credit process with a new style of working based on the Lean philosophy has resulted in working in multidisciplinary teams. Effectiveness and efficiency have improved, while preserving the controlled operations. Implications for employees have the attention of the management.

Several projects to ensure compliance to laws and regulations have started and have a considerable impact on business processes (notably MiFID/MiFIR and the General Data Protection Regulation).

The insight provided in operational risk has improved. In the quarterly Risk Report to the Executive Board and the Supervisory Board the operational risk exposure is measured and reported by the Risk Management department. For operational risk the use of an extensive set of indicators is relatively new and further tuning will be applied in 2018. The Risk Management department gives an opinion on the most important non-financial risks and has asked explicit management attention for the many simultaneous changes the bank is facing. The number of operational incidents did not materially increase in 2017.

Operational risk has a soft component, also referred to as ‘culture’. BNG Bank is convinced of the importance of this component. To improve the risk awareness various operational risk management activities are performed, such as periodically performing risk self assessments for all processes and taking the so called banker’s oath by all employees. In 2017, the Information Security Officer was positioned in the Processing department instead of the Compliance department. This led to the enhancement of the information security function within the Processing directorate. In 2018 the bank will decide on a definitive positioning of the Information Security Officer.

GENERAL

BNG Bank registers all operational incidents with a potential impact of EUR 5,000. To this end, employees involved in the operational process are obliged to report all operational incidents to the Risk Management department. Remedial actions directly related to the incident are the responsibility of the first line. Additionally, the Risk Management department conducts an assessment in order to determine whether the prevention of future similar incidents will require any adjustments to the process, systems or working methods. Every quarter, the Risk Management department reports to the Executive Board and senior management on incidents

with a possible impact from EUR 10,000 upwards. It also provides annual reports on incidents involving a loss of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. For 2017 the Incidents Report contains two incidents with an impact in excess of EUR 100,000. The impact of operational incidents on the bank's annual results in 2017 was limited. Incidents which pose a serious threat to the ethical conduct of the business must be reported to the regulator. No such incidents occurred in 2017.

IT RISK

The bank's information policy aims to develop and maintain information systems that allow the bank to continue executing its company strategy successfully. The information policy is reviewed annually, based on the business strategy objectives and external developments.

The management of IT risk is based on the application of preventative rather than remedial measures. These measures are aimed at preventing (potential) incidents or detecting them at the earliest possible opportunity and preventing the potential damages or restoring the desired situation as quickly as possible. In order to guarantee the continuity of IT support at the bank, a yearly fall-back test is conducted. Also in 2017 the test demonstrated that the bank's backup systems are adequately equipped to ensure that services continue as normal in the event of a calamity. Furthermore, the systems are frequently tested for vulnerabilities to hacking. All bank employees received information security training in 2017 in the form of interactive information sessions and e-learning. There were no major information security incidents in 2017.

To limit the IT risk, the bank seeks to reduce the complexity of its IT systems. The dynamics of the financial markets and statutory and regulatory requirements continue to constitute a challenge to the bank in this regard, resulting in a substantial project portfolio. The development of a central data warehouse also requires a large amount of IT capacity and will continue to do so in the next few years. Where necessary, external expertise and capacity is used. So far results are encouraging.

Agile working has been adopted for carrying out projects. A team which consists of employees of the business side, analysts and developers are working together in close collaboration to achieve the desired result. The 'product owner' has the deciding vote within the team, taking into account the interests of all stakeholders. Per project the most suitable project approach is selected. All projects are initiated and managed via the project portfolio. Many system adjustments are still prompted by changing laws and regulations.

OUTSOURCING RISK

BNG Bank's most important outsourcing contract relates to the outsourcing of the payment transaction process and a large portion of the bank's IT activities to Centric FSS. These activities include payment services and current account administration, the computing centre and workstation management. BNG Bank's activities are linked to those carried out by Centric FSS via Service Level Agreements (SLAs) and the bank's internal demand organisation. BNG Bank regularly monitors and evaluates the service provider's services. The ISAE 3402 statement annually issued by Centric FSS is part of this procedure. The IAD's periodical audits of Centric FSS provide extra assurance. The bank also structurally monitors the financial situation of Centric FSS and draws up contingency plans. Other services, such as the management of the building and installations, catering, cleaning and landscaping, have also been outsourced, with satisfactory results.

Cloud computing is becoming more and more common practice. BNG Bank is treating cloud computing as a way of outsourcing and performs a risk analysis as part of the outsourcing decision. Classification and ultimate destination of the data and the characteristics of the outsourcing party and the application are important factors in the decision. The decision to allow a cloud application is made by a multidisciplinary team.

INTEGRITY RISK

Integrity is a key part of the operations. The BNG Bank Code of Conduct (see website), featuring the core values: reliable, sustainable and professional, serves as a guideline for all actions undertaken by BNG Bank and its employees. New staff are assessed on their integrity before they take up their duties, irrespective of whether it concerns internal or external staff. The issue of integrity is highlighted among all staff on a regular basis. All current employees have individually taken the banker's oath and endorsed the disciplinary regulations for banks. New staff also individually take the banker's oath and endorse the disciplinary regulations for banks. When employees take the oath, the importance of ethical conduct is discussed. The bank carries out a product approval process to ensure that its products serve the interests of its clients and do not involve any unacceptable risks for the clients and for the bank itself. The bank values acting with due care towards clients and other stakeholders over an exclusive focus on financial profit or other self-interests. The bank also expects its clients and other contacts to adhere to ethical standards and not to place the bank's reputation at risk. The bank has drawn up policy rules for this purpose, that are used as a basis for assessing new and existing clients and contacts. Compliance with internal and external rules is regularly reviewed within the bank. The Compliance department periodically carries out an integrity risk analysis and has not detected any major integrity issues in 2017.

LEGAL RISK

The bank has a specialist legal department whose tasks and responsibilities include drafting legally sound arrangements with clients and other parties. To this end, standard contracts and provisions have been drawn up, which are managed in an internal (contract) models library. Any deviation from these standard contracts is coordinated with the Legal Affairs, Tax and Compliance department (JFC).

The bank has automated the administration of contractual provisions in agreements with clients, with the aim to standardise the conditions and provisions as much as possible. The internal (contract) models library is aligned with the contract administration and is subject to continuous further development and updating. This guarantees the enforceability of contractual agreements as much as possible, and the standardisation of conditions will result in an operational process that involves as little manual intervention as possible.

Where applicable, the JFC department seeks external assistance, for example in the event of complex (often syndicated) transactions and in cases requiring specialist legal knowledge.

As at year-end 2017, BNG Bank was not involved in any material legal proceedings.

Strategic risk

DEFINITIONS

Strategic risk is defined as the risk that strategic decisions of the institution itself could result, in the execution of those decisions, in losses and/or the chance of losses as a result of changes beyond the control of the institution or group in the area of the bank's competitive position, the political climate, regulatory developments, reputation and business climate. In addition to general strategic risks, the following aspects can be identified:

- Reputation risk: The risk that the institution's market position will deteriorate due to a negative perception of its image amongst stakeholders.
- Business climate: The likelihood of losses due to environmental changes in terms of the economy, stock exchange climate, wage and/or purchasing power developments, broader society, technology and by the activities, actions and/or decisions of (new) competitors.
- Political risk: The risk that the institution's competitive and market position will be influenced by the political climate and stakeholder influence.
- Regulatory risk: The risk that developments in regulatory requirements will materially impact the business model and complexity of operations.

GOVERNANCE

Strategic risks are driven by external factors in particular and hence are less easily influenced or predictable. Furthermore, strategic risks are often closely interlinked with one of the other risk types (e.g. operational risks can have an effect on the reputation of BNG Bank or a changing business climate causes changes in the credit risk or interest rate risk profile of BNG Bank). Therefore, strategic risk has no dedicated general policy of its own. Instead, strategic risks are incorporated in the annual plan of BNG Bank and the business plans of the individual departments. Strategic risk is also addressed in the Capital Management Plan (as part of the ICAAP). Decisions on strategic risk are the responsibility of the Executive Board, although discussions generally also take place in Management Board or ALCO meetings depending on the exact nature of the strategic risk. The monitoring is organized by means of the planning- and budget cycle.

DEVELOPMENTS

Strategic risks are driven by the external environment of the bank which is evolving continuously. As usual, the bank has been in close contact with its stakeholders to discuss and evaluate these developments. From a strategic perspective, the bank has focussed on three major subjects.

Firstly, from a perspective of competition, the bank has increased its efforts to operate close to its customers interests, by communicating with them in many ways but also in developing new products and updating existing products according to their wishes, whilst retaining its sharp pricing profile. Competition from other banks as well as institutional investors was more fierce

in 2017 than in the preceding years, although the bank was able to hold the balance between retaining acceptable margins and substantial market shares in new transactions. From its scale and business model, it is not necessary and, from a cost perspective, not desirable to be a technological frontrunner. However, smart following including continuous innovation is necessary for customer experience as well as cost efficiency.

Secondly, the bank has continued its efforts in the field of sustainability, which is described elsewhere in more detail in this annual report. An example in this respect was the development of a Sustainability Fund for specific projects.

Thirdly, the bank is focusing on organisational flexibility in the field of human resource management. Job rotation as well as life long learning is actively promoted by the Management Board and is supported by a range of learning facilities, including coaching. The job market is already tight for staff with the required qualifications and expected to be tightening further. Especially staff with a combination of relevant technical skills and in depth knowledge of banking is scarce and job rotations as well as internships stimulate existing staff to extend its skills, thus reducing the risk of job loss caused by changing demands.

Furthermore, the bank has closely followed all developments regarding Brexit. In terms of assets, the exposure to the UK is relatively small and the quality of these assets is high. For funding purposes the bank is not materially dependent on the UK. Furthermore, the bank has virtually no exposure to the EUR/GBP exchange rate. The most extensive ties with the UK relate to the large amount of derivatives transactions with banks in the UK and to central clearing through the clearing house LCH. In general, larger banks in London are in talks with the European Central Bank about moving operations to the European mainland to prepare for the situation that Brexit takes place without a trade deal between the EU and the UK. Clearing houses of systemic importance like LCH may be explicitly forced by the EU to move to a location within the EU. The bank discusses the developments related to Brexit in its Financial Counterparty Committee.

In 2017 no specific further events or changes occurred that materially changed the strategic risk profile of BNG Bank. Neither did the processes to monitor and analyse these strategic risks.

REPUTATION RISK

BNG Bank always aims to provide products and services that are in the client's interest. This is of vital importance for its reputation as a bank of and for the public sector. This is reflected not only in the bank offering products that its clients ask for, but especially in a certain reticence if it is not sufficiently clear that a particular product is in the clients' interest. The bank will stress this when it receives requests for financing arrangements which it considers unsuitable for the client concerned. This applies in particular to smaller organisations of which the bank has reason to believe that they lack the in-house expertise to manage the risks of the product in question. This is factored into the bank's product approval process. Naturally, reputation risk also applies to the bank's other stakeholders, such as investors and shareholders. It often arises as a consequential risk if other risks are not properly controlled. Therefore, it makes up an integral part of all aspects of the bank's risk policy. Mitigation of the various risks therefore indirectly safeguards the bank's reputation.

To provide its clients with innovative forms of lending, a limited time to market is desirable from a strategic as well as a commercial perspective. However, insufficient care during implementation can lead to problems that could harm the bank's reputation. In 2017 the existing product approval process has been supplemented with a formal Product Approval and Review Policy as well as extensive product approval templates. In these templates much attention is paid to the suitability of products for the banks clients. The new product approval templates will be filled for new as well as existing products. Part of this has taken place in 2017 and the other products will follow in 2018. Since reputation risk is included in the risk appetite of the bank, it is also part of the associated monitoring.

BUSINESS CLIMATE

The low interest rate environment in the EU has a lowering effect on earnings and return on equity. The relatively long maturities of the bank's assets result in a slower materialisation of this effect for BNG Bank than for most other banks. However, the effect is still there. Given the fact that the interest rate environment is explicitly taken into account in the shareholders opinion on the required return and that the shareholders are not demanding a maximum but only a reasonable return on their shareholdings, the interest rate environment as such is not threatening the business model of the bank.

The relatively low credit margins characteristic of the market in which BNG Bank operates act as an obstacle to potential new entrants. Scale and efficiency are key to a profitable business model. Parties striving to maximise their profits will thus enter this market on a limited scale. Although competition is still relatively limited, as described above, it has increased due to the fact that institutional parties such as pension funds and insurers do enter this market on an irregular basis. Other parties are show an interest in financing DBFMO projects.

POLITICAL RISK

At BNG Bank, business climate and political risk are closely linked, because public authorities are both shareholders and clients. Therefore, BNG Bank has a high dependency risk with respect to political decisions. Especially decisions that impact regulations for client sectors that represent large portions of the bank's balance sheet. Due to public sector cuts in recent years, BNG Bank's loan portfolio marginally declined.

The political climate with respect to the different sectors in which BNG Bank operates has stabilised in 2017 compared to the preceeding years. For the longer term, BNG Bank expects that a smaller part of the funding of the housing sector will be guaranteed by the Social Housing guarantee fund than is now the case. This will impact the credit risk profile of these loans. Developments are being monitored continuously. If any changes would be decided upon, these are expected to be implemented incrementally, allowing for a smooth transition for the housing sector.

BNG Bank incidentally invested modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects also in its capacity as lender. Market conditions in this sector have been difficult after the crisis of 2008, and activities are directed primarily at managing and phasing out the existing portfolio. New projects are only considered if the risk profile is considerably safer than before.

REGULATORY RISK

Changing regulations remain a potential threat. The bank is specifically exposed to potential changes in solvency requirements based on notional amounts, like the total size of the balance sheet, because almost all of its assets are low risk and most of them are even zero risk weighted. Another potential threat is the Bank Recovery and Resolution Directive (BRRD) by the EU, which poses the question of whether the shareholders are permitted to assist BNG Bank in the event of acute problems, without rising discussions on state aid or a bail-in. The details of the directive governing the MREL requirement (Minimum Requirement for own funds and Eligible Liabilities) can also affect how the bank meets its funding needs. The precise form of these bail-in regulations as well as the interpretation by the Single Resolution Board in the context of promotional banks is still undetermined.

In the long term further changes are to be expected as the Basel Committee published in December 2017 a report on further reforms of the regulatory framework. For full implementation of these reforms a transition period is included up to 2027. These reforms now need to be incorporated in the regulatory framework of the European Union in the upcoming years. Currently, potential impact on capital or liquidity requirements seems limited on BNG Bank. However, the incorporation of these reforms in EU regulation will determine the exact impact. And besides any direct capital or liquidity impact the associated reporting requirements and implementation of regulations might take up considerable resources of BNG Bank.

Capital and solvency

DEFINITIONS

Regulatory capital relates to the capital requirements under the Basel framework. For Pillar I the capital requirement is based on the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). BNG Bank employs the 'Standardised Approach' to calculate the RWAs.

In addition to the regulatory required capital BNG Bank calculates economic capital (EC) for Pillar II purposes. Economic capital covers all risks in our risk taxonomy, for which capital is deemed to be the mitigating instrument to cover unexpected losses. It is used for internal risk measurement and management. It is the amount of capital we deem adequate to achieve a sufficient level of protection against large unexpected losses that could result from extreme market conditions or events.

GOVERNANCE

The Executive Board is responsible for determining the policy with respect to capital. This is laid down in a capital adequacy statement and management plan. Next, the Executive Board is responsible for the allocation of capital.

Decision making is prepared by the Capital Policy and Financial Regulations Committee. This committee comprises all relevant stakeholders: the executive board, Public Finance, Treasury, Capital Management, Risk Management and Finance and Control.

DEVELOPMENTS

As at December 2017, the phase-in Capital Requirements Directive IV (CRD IV) Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were 30%, 37% and 37% respectively. All capital ratios were well above regulatory minimum requirements. BNG Bank's capital position strengthened compared to 31 December 2016 driven by profit accumulation.

BNG Bank is required in 2018 to meet a minimum CET1 ratio of 8.875%, composed of a Supervisory Review Evaluation Process (SREP) requirement of 6.25% (4.5% Pillar I requirement and 1.75% Pillar II requirement), a phased-in systemic risk buffer (SrB) of 0.75% and a capital conservation buffer (CCB) of 1.875%. The SrB is expected to increase by 0.25% next year to its final level of 1% in 2019. The CCB will increase by 0.625% next year to its final level of 2.5% in 2019. BNG Bank amply meets the requirements. The Maximum Distribution Amount (MDA) trigger level for BNG Bank is 8.875% of CET1 capital. Based on full phase-in of the SrB and CCB the fully loaded MDA trigger level is expected to increase to 9.75%.

In 2011, BNG Bank lowered its dividend distribution policy to 25% in order to meet the additional capital requirements introduced by Basel III. Given that clarity on the capital requirements is still pending (see subsection on regulatory framework) BNG Bank is not changing this policy now, but expects to update it in 2018 and present it to the General Meeting of Shareholders early 2019. That having said, BNG Bank proposes to increase the dividend distribution to 37.5% for the year 2017. This is supported by the solid performance on the ratio's per year-end 2017 and the high net profit over the fiscal year 2017. Further support is given by the satisfactory outcomes of both the 2017 EBA Stress Test on interest rate risk and the scenarios that were used in the recovery plan.

SOLVENCY

	31/12/2017		31/12/2016	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
CRD IV/CRR (TRANSITIONAL)				
Tier 1 capital	1,193	4,266	1,094	3,933
Total capital ratio	10.25%	37%	8.875%	32%
– Pillar I	8.5%		8%	
– Combined Buffer Requirement	1.75%		0.875%	
Common Equity Tier 1 capital	728	3,533	663	3,200
Common Equity Tier 1 ratio	6.25%	30%	5.375%	26%
– Pillar I	4.5%		4.5%	
– Combined Buffer Requirement	1.75%		0.875%	
CRD IV/CRR (FULLY PHASED IN)				
Tier 1 capital	1,397	4,317	1,418	4,034
Total capital ratio	12%	37%	11.5%	33%
– Pillar I	8.5%		8%	
– Combined Buffer Requirement	3.5%		3.5%	
Common Equity Tier 1 capital	931	3,584	986	3,301
Common Equity Tier 1 ratio	8%	31%	8%	27%
– Pillar I	4.5%		4.5%	
– Combined Buffer Requirement	3.5%		3.5%	

CAPITAL MANAGEMENT

The primary objective of the capital management strategy is to ensure that internal as well as external capital adequacy requirements are met at all times and sufficient capital is available to support the bank's strategy.

The capital management strategy builds on the bank's risk appetite and its business plans. Besides, expectations and requirements of external stakeholders (e.g. regulators, investors, rating agencies, shareholders), the bank's capitalization relative to the market, market developments and the feasibility of capital management actions are taken into account.

The capitalization policy is incorporated in the so-called ICAAP. Key to this policy is the capital management plan, which determines the level and composition of the capital based on the risks to be insured by that capital. In the ICAAP, regulatory as well as economic capital is taken into account. As part of the ICAAP a number of stress scenarios is executed in order to determine the adequacy and robustness of the capitalization. Next to the level of capitalization, the ICAAP determines the allocation per relevant type of risk.

On an ongoing basis, capital adequacy is measured and monitored against target capital ratios. These target levels are derived from the bank's risk appetite and strategy and quantified by the ICAAP. The allocation is derived from the ICAAP. This process ensures that the bank is operating in line with its risk appetite.

CAPITAL STRUCTURE

BNG Bank's capitalization is well above the fully-loaded capital requirements laid down in the CRD IV. The capital structure consists mainly of common equity. The other part consists of additional Tier 1 instruments.

The two tables below show the structure of the regulatory capital. The tables present the capital in the transitional situation and the capital after full phasing-in (2018).

	31/12/2017		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	3,221	3,221	3,221
Unappropriated profit			393
Accumulated other comprehensive income			
– Cash flow hedge reserve	193	193	193
– Revaluation reserve	268	268	268
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	3,827	3,827	4,220
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	–193	–193	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	–6	–6	
– Own credit risk for Financial liabilities at fair value through the income statement	–9	–9	
– Value adjustments due to the prudential valuation requirements	–8	–8	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	–25	–25	
Transitional adjustments to CET1 capital:			
– Intangible assets	–2	–2	
– Unrealised losses in the revaluation reserve	9	–	
– Unrealised gains in the revaluation reserve	–60	–	
CET1 CAPITAL	3,533	3,584	
Additional Tier 1 capital:	733	733	733
TIER 1 CAPITAL	4,266	4,317	
TOTAL EQUITY			4,953

	31/12/2016		
	CAPITAL (TRANSITIONAL)	CAPITAL (FULLY PHASED IN)	IFRS EQUITY
Paid-up capital	139	139	139
Share premium	6	6	6
Retained earnings from previous years	2,961	2,961	2,961
Unappropriated profit			369
Accumulated other comprehensive income			
– Cash flow hedge reserve	3	3	3
– Revaluation reserve	275	275	275
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	3,384	3,384	3,753
Adjustments to CET1 capital as a result of prudential filters:			
– Cash flow hedge reserve	–3	–3	
– Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	–19	–19	
– Own credit risk for Financial liabilities at fair value through the income statement	–24	–24	
– Value adjustments due to the prudential valuation requirements	–8	–8	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	–29	–29	
Transitional adjustments to CET1 capital:			
– Unrealised losses in the revaluation reserve	25	–	
– Unrealised gains in the revaluation reserve	–126	–	
CET1 CAPITAL	3,200	3,301	
Additional Tier 1 capital:	733	733	733
TIER 1 CAPITAL	3,933	4,034	
TOTAL EQUITY			4,486

PRUDENTIAL FILTERS

BNG Bank applies the following prudential filters to the CET1 capital:

- The cash flow hedge reserve is eliminated in its entirety.
- The benefits arising from own credit risk in derivatives transactions are eliminated in their entirety.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated in their entirety.
- Due to the regulations on prudent valuation, an adjustment is calculated in relation to the balance sheet valuation of assets and liabilities that are carried at fair value.

DEDUCTIBLE ITEMS

BNG Bank opts to reduce the CET1 capital by two securitisation positions that are eligible for 1250% solvency weighting.

ADJUSTMENTS IN CRD IV/CRR TRANSITION PHASE

The portion of unrealised losses from the revaluation reserve for Financial assets available-for-sale included in the CET1 capital was 80% in 2017 (2016: 60%).

ADDITIONAL TIER 1 CAPITAL

For a clarification, please refer to note 20 of the Notes to items of the consolidated financial statements.

REGULATORY FRAMEWORK

The European Commission issued in November 2016 draft texts to amend CRD IV, CRR and BRRD. The legislative process is still ongoing with an expected adoption in 2018. In the context of capital, the leverage ratio and the Minimum Requirement for own funds and Eligible Liabilities (MREL) requirement are the main important subjects for BNG Bank.

The CRR introduces a non-risk based leverage ratio which would be monitored until 2017 and further refined and calibrated before becoming a binding measure as from 2018. As this binding measure is part of CRR II, the details have not been finalised yet. Discussions are still ongoing over the required level, potentially depending on significance, and a proportional treatment of promotional banks. Developments in this respect are being monitored. BNG Bank's capital planning is based on the 3% level communicated to date and reaffirmed by Basel IV (see below). As of December 2017, BNG Bank meets this target.

The BRRD provides authorities with more comprehensive and effective measures to deal with failing banks. The bail-in framework of the BRRD has been applicable since January 2016. The bail-in framework introduced an additional loss-absorbing measure, MREL. The definite requirements, in terms of both level and eligible instruments, have not been established yet. Next, the MREL requirement will be an institution specific requirement determined by the Single Resolution Board (SRB). As such, any future requirement will depend both on final regulations as well as on the assessment of the SRB. The Single Resolution Board (SRB) is responsible for preparing the resolution plan for BNG Bank. The SRB has not concluded its plan yet.

If the to be determined MREL requirement cannot be met with existing instruments, BNG Bank will likely use the new category of unsecured debt introduced by an – to be transposed in national law- EU harmonised approach on the priority ranking of bank bond holders in insolvency and in resolution to meet these requirements. The developments have been closely monitored during 2017 and BNG Bank will continue to do so in 2018.

Commonly referred to as Basel IV, the Basel Committee on Banking Supervision has issued in December 2017 post crisis reforms. While introducing changes to the Standardised Approach, the framework aims specifically to enhance the reliability and comparability of risk-weighted capital ratios under the Internal Model approach. As such, the changes will impact the capital position of BNG Bank but are not expected to impact it in a material way. The treatment of sovereign exposures is not part of Basel IV. Revisions to this approach are part of a discussion

paper. As sovereign exposures form a significant part of BNG Bank's exposures, any changes to the treatment of these exposures will have a significant impact on BNG Bank's capital ratios. Developments in this area will be monitored closely.

Other notes

Fair value of financial instruments

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

FAIR VALUE HIERARCHY

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

Where possible, BNG Bank uses quoted market prices (Level 1). Quoted market prices are based on bid prices (for financial assets) and ask prices (for financial liabilities). Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset. BNG Bank uses mid-market prices on the reporting date for valuation purposes. BNG Bank's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

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

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

With regard to interest rate swaps whereby the bank does not have an agreement with clients subject to solvency requirements for the daily exchange of collateral, a Credit Valuation Adjustment (CVA) for counterparty's credit risk is applied in the calculation of the fair value. As a consequence of the changed market practice, several improvements were implemented. In determining the fair value of derivative transactions, the CVA is applied to all derivative transactions with all clients and financial counterparties with which the bank does not have an agreement for the daily exchange of collateral. The CVA is also applied, in determining the fair value, to all derivative transactions with clients or counterparties with which the bank has an agreement for the daily exchange of collateral which is not regarded as sufficient. The bank also applies adjustments to its own credit risk, the Debit Valuation Adjustment (DVA), in the fair value of derivatives transactions with clients and financial counterparties with which the bank does not have an agreement, or no sufficiently robust agreement, for the daily exchange of collateral.

The bank applies 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. Over 2017, the movement in OCA was EUR 15 million negative and amounted to EUR 9 million positive at year-end 2017.

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

	31/12/2017		31/12/2016	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances held with central banks	2,996	2,996	6,417	6,417
Amounts due from banks	13,997	13,998	11,795	11,800
Financial assets at fair value through the income statement	2,006	2,006	2,350	2,350
Derivatives	8,982	8,982	15,412	15,412
Financial assets available-for-sale	14,110	14,110	15,437	15,437
Loans and advances	86,008	99,811	87,576	103,920
TOTAL FINANCIAL ASSETS	128,099	141,903	138,987	155,336
Amounts due to banks	2,393	2,392	3,530	3,529
Financial assets at fair value through the income statement	944	944	1,190	1,190
Derivatives	21,870	21,870	24,780	24,780
Debt securities	104,127	105,595	112,180	113,085
Funds entrusted	5,472	5,743	7,557	7,845
Subordinated debt	31	46	31	47
TOTAL FINANCIAL LIABILITIES	134,837	136,590	149,268	150,476

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

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

	31/12/2017			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	94	1,289	623	2,006
Derivatives	–	8,969	13	8,982
Financial assets available-for-sale	10,790	3,320	–	14,110
TOTAL FINANCIAL ASSETS	10,884	13,578	636	25,098
Financial liabilities at fair value through the income statement	–	944	–	944
Derivatives	–	21,857	13	21,870
TOTAL FINANCIAL LIABILITIES	–	22,801	13	22,814

	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

	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	12	6	0	6
– Unrealised result on financial transactions	–3	–16	0	–20
– Realised result on financial transactions	0	0	0	0
	9	–10	0	–14
– Unrealised value adjustments via the revaluation reserve	–	–	1	–
– Investments	0	0	–30	0
– Cash flows	–40	–3	4	–4
– 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	0	0
CLOSING BALANCE	623	13	0	13

	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 in the market. Because there is no such trade, the observable market data available for similar securities is not fully representative of the current fair value. Therefore, the fair value of these transactions is determined on the basis of public market data that is adjusted using significant input variables not publicly observable in the market. A total of EUR 30 million was reclassified from the Financial assets available-for-sale item to the Held for sale item in relation to the investment in AXA Infrastructure Fund.

INPUT VARIABLES WHICH ARE NOT PUBLICLY OBSERVABLE IN THE MARKET

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

FINANCIAL ASSETS AT FAIR VALUE

For the purpose of determining the spreads of interest-bearing securities and loans with an inflationary component and a monoline guarantee, the following input variables not publicly observable in the market are used:

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

These input variables were estimated by management based on data which is not publicly observable in the market and 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.

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

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

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

	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016	31/12/ 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	623	654	13	26	0	25	-13	-31	623	674
INTEREST RATE										
+10 basis points	-8	-8	-3	-4	0	0	0	0	-11	-12
-10 basis points	8	8	3	4	0	0	0	0	11	12
+100 basis points	-69	-71	-32	-41	0	0	3	-2	-98	-114
-100 basis points	94	98	34	44	0	0	-5	1	123	143
INFLATION RATE										
+10 basis points	8	8	0	0	0	0	0	0	8	8
-10 basis points	-8	-8	0	0	0	0	0	0	-8	-8
+100 basis points	90	94	0	0	0	0	0	0	90	94
-100 basis points	-67	-70	0	0	0	0	0	0	-67	-70
CREDIT AND LIQUIDITY RISK SPREADS										
+10 basis points	-9	-10	2	2	0	0	1	2	-6	-6
-10 basis points	10	10	-1	-2	0	0	-1	-2	8	6
+100 basis points	-83	-89	28	34	0	0	1	10	-54	-45
-100 basis points	110	118	-8	-15	0	0	-20	-30	82	73
TOTAL SIGNIFICANT INPUT FACTORS										
+10 basis points	-10	-10	-2	-2	0	0	2	2	-10	-10
-10 basis points	10	11	2	2	0	0	-2	-2	10	11
+100 basis points	-83	-89	-6	-9	0	0	6	9	-83	-89
-100 basis points	115	124	27	29	0	0	-25	-29	117	124

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

A large part of the assets in Level 3 (EUR 357 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 72 million at year-end 2017 (year-end 2016: EUR 76 million negative). The sensitivity of these instruments in the Financial assets at fair value through the income statement item decreased in 2017. Under the Financial assets available-for-sale item, a AXA Infrastructure Fund transaction with a balance sheet value of EUR 30 million is reclassified to the Held for sale item. The settlement will be in the first half year of 2018. The sensitivity of the remaining fair value Level 3 instruments under this balance sheet item is not significant.

The Derivatives (stated as liabilities) item features a Level 3 separated option linked to the French government interest rate. This option is hedged with a Level 3 swap including an option recognised under the Derivatives (stated as assets) item. The swap is sensitive to the euro swap rate and the French government interest rate and also to counterparty risk. The credit and liquidity spreads decreased during 2017.

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

The table below provides an overview of the way in which the fair value is determined for transactions recognised at amortised cost in the balance sheet on the basis of the hierarchical classification referred to above.

	31/12/2017			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	2,996	–	–	2,996
Amounts due from banks	98	13,892	8	13,998
Loans and advances	1,339	91,016	7,456	99,811
TOTAL FINANCIAL ASSETS	4,433	104,908	7,464	116,805
Amounts due to banks	–	2,392	–	2,392
Debt securities	82,264	22,165	1,166	105,595
Funds entrusted	1,831	55	3,857	5,743
Subordinated debt	–	–	46	46
TOTAL FINANCIAL LIABILITIES	84,095	24,612	5,069	113,776

				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 debt	–	–	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 solvency requirements to BNG Bank's statutory market parties. These assets also include the fair value of the assets that have been reclassified under the balance sheet item Loans and advances since 2008, having previously been recognised under the balance sheet item Financial assets available-for-sale, to the extent revaluation is effected using data that are not publicly observable in the market. Loans and advances to statutory counterparties under government guarantees are included in Level 2, on account of the strong correlation with bonds issued by the Dutch State. The financial liabilities at amortised cost under Level 1 mainly consist of tradable benchmark bonds issued by BNG Bank (Debt securities item). Funds entrusted are classified under Level 3 (Debt securities and Funds entrusted item).

Hedging of risks with derivatives

BNG Bank applies economic hedging in order to mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is strictly adhered to and is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. For accounting purposes, BNG Bank processes this hedging relationship under IFRS by applying micro and portfolio fair value hedging, as well as cash flow hedging. The Accounting principles for the consolidated financial statements section describes the conditions that need to be met before these forms of hedge accounting can be applied.

Micro fair value hedging (MH) is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. This form of hedging is applied to nearly all debt securities issued. The foreign exchange and interest rate risks are hedged by means of derivatives, mainly (cross-currency) interest rate swaps. The issues are fully offset against the derivatives so that, on a net basis, the fixed coupons of the issues are converted into variable interest amounts in euros. Both the issues and the accompanying derivatives can contain structures, such as options, which are also fully offset. The revaluation effect of hedged MH transactions with regard to fair value hedging is accounted for in the same balance sheet item as the hedged items.

BNG Bank applies (micro) cash flow hedge accounting to virtually all long-term funding transactions in foreign currencies in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations. The basis swap spread is an important building block of the value of a cross-currency (interest rate) swap. Therefore, if seen as a separate financial instrument, the fair value of these swaps is influenced by the change in the basis swap spread. However, this change has no economic effect on the bank and it, in principle, never will, as the bank will generally retain the contracts until their maturity. With the exception of voluntary early redemption of funding in foreign currencies or an immediate and complete withdrawal from the banking business, there are no circumstances under which these negative revaluations can lead to a realised result. Nevertheless, the bank is obligated under IFRS to recognise the change in the instrument's fair value in its accounts. The effects of this accounting mismatch must be recognised in the income statement as value adjustments to derivatives. With the use of cash flow hedge accounting, the effective part of the cash flow hedge is recognised in a cash flow hedge reserve in equity. The interest results of both the hedging instrument and the hedged item are accounted for in the same period in the income statement.

In portfolio fair value hedging (PH), the interest rate risks of a group of transactions are hedged by means of a group of derivatives. The hedging relationship is constructed and controlled at an aggregate level, thus precluding relationships with individual transactions. Within BNG Bank, portfolio hedging, like micro hedging, has been highly effective in recent years. Any ineffectiveness that occurs is recognised in the income statement. The revaluation of hedged PH items is accounted for in the balance sheet item Value adjustments on loans in portfolio hedge accounting. In both types of hedge accounting, the derivatives in question are measured at fair value and included in the Derivatives items.

Although BNG Bank uses derivatives for economic hedging purposes, it is not possible in all cases to include these in a hedge accounting relationship, as permitted by IFRS. For the derivatives that are not involved in a hedge accounting relationship, in virtually all cases there is an economic hedged position which is also recognised at fair value through the income statement so that, in total, the volatility of the result due to interest rate and foreign exchange risks is limited.

The notional amounts of the derivatives are listed below, categorised by type of derivative.

	31/12/2017		31/12/2016	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
DERIVATIVES (STATED AS ASSETS)				
Interest rate swaps	75,957	6,070	69,055	7,613
Cross-currency swaps	16,993	2,891	42,406	7,139
FX-swaps	2,059	11	13,141	648
Other derivatives	123	10	151	12
	95,132	8,982	124,753	15,412
DERIVATIVES (STATED AS LIABILITIES)				
Interest rate swaps	85,137	18,232	99,071	22,754
Cross-currency swaps	31,917	3,361	10,024	1,772
FX-swaps	9,157	133	3,236	68
Other derivatives	2,376	144	2,542	186
	128,587	21,870	114,873	24,780

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2017, this collateral amounted to EUR 369 million (2016: EUR 1,776 million), of which EUR 369 million in cash (2016: EUR 1,766 million) and no collateral in the form of interest-bearing securities (2016: EUR 10 million).

With regard to derivatives, BNG Bank provided EUR 14,326 million in collateral in 2017 (2016: EUR 11,795 million), of which EUR 13,892 million in cash (2016: EUR 11,541 million) and EUR 434 million in interest-bearing securities (2016: EUR 254 million).

Related parties

TRANSACTIONS WITH RELATED PARTIES

ENTITIES WITH CONTROL, JOINT CONTROL OR SIGNIFICANT INFLUENCE OVER BNG BANK

The State of the Netherlands owns 50% of the shares and voting rights of BNG Bank. As the other half of the shares is divided between a large number of shareholders, the State of the Netherlands has de facto control over BNG Bank. The holders of the hybrid capital do not fall within the definition of related parties (IAS 24.9), as individually they have no (joint) control or significant influence over BNG Bank. BNG Bank has direct exposure to the State of the Netherlands in the form of purchased, publicly tradable government securities. The bank also has a large portfolio of loans and advances with direct guarantees from the State, or with guarantees from the WSW (social housing) and WFZ (Healthcare) guarantee funds, for which the State of the Netherlands acts as a backstop. In all cases, this concerns private lending.

SUBSIDIARIES

This relates to the BNG Bank subsidiaries Hypotheekfonds voor Overheidspersoneel and BNG Gebiedsontwikkeling included in the consolidation. BNG Bank has intercompany transactions with these parties, which consist of the issue of private loans and advances, credit balances held in current accounts and off-balance sheet commitments. All of these intercompany transactions are eliminated from the figures in and notes to the consolidated financial statements.

ASSOCIATES, JOINT VENTURES AND JOINT OPERATIONS

This relates to associates, as well as joint ventures and joint operations entered into by BNG Gebiedsontwikkeling. A list of these parties is provided in a separate note in these financial statements. Transactions with these contacts consist of loans and advances, credit balances held in current accounts and off-balance sheet commitments (the undrawn portions of credit facilities).

EXECUTIVE BOARD MEMBERS OF THE BANK

This relates to the individual members of the Executive Board of BNG Bank. Loans are granted to individual members of the Executive Board under BNG Bank’s standard staff terms and conditions. BNG Bank has not granted any individual significant transactions with any related parties. Intercompany transactions (except loans to individual directors) are therefore included in the table below at an aggregate level. No incurred loss provision was required for loans granted to members of the Executive Board. No sums were remitted by the bank.

	31/12/2017	31/12/2016
STATE OF THE NETHERLANDS		
Direct exposure in the form of purchased government securities	1,966	2,313
Lending with direct guarantees from the State	726	702
Lending with indirect guarantees from the State (WSW/WFZ)	38,737	39,638
SUBSIDIARIES		
Lending to subsidiaries	150	171
Credit balances held by subsidiaries	11	7
Off-balance sheet commitments to subsidiaries	7	7
ASSOCIATES, JOINT VENTURES AND JOINT OPERATIONS		
Lending to associates, joint ventures and joint operations	89	171
Credit balances held by associates, joint ventures and joint operations	7	15
Off-balance sheet commitments to associates, joint ventures and joint operations	49	40
MORTGAGE LOANS GRANTED TO DIRECTORS		
Mr C. van Eykelenburg		
– amount in euros	696,226	698,816
– average interest rate (after staff mortgage discount)	4.3%	4.3%
Mr O. Labe		
– amount in euros	–	362,499
– average interest rate (after staff mortgage discount)	–	4.2%

BNG BANK'S PRINCIPAL DECISION-MAKING BODIES

The most important decisions and acts of management are taken and carried out by the Executive Board. The policy pursued is assessed and supervised by the Supervisory Board.

REMUNERATION

BNG Bank's remuneration policy consists of fixed and variable remuneration components. The total remuneration granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 6 million in 2017 (2016: EUR 5 million). The Identified Staff consisted of 31 individuals in 2017 (2016: 30). In the case of six of these individuals (2016: six) 50% of the variable remuneration was conditional. Following reassessment, this portion will be paid after three years unless the achievement of the associated targets is found to have jeopardised BNG Bank's long-term continuity. Since 2015, the variable remuneration component has been subject to a maximum of 20% of the fixed salary for all bank employees. No employee received remuneration exceeding EUR 1 million in 2017 (2016: none).

The remuneration of the identified staff can be divided into three groups: Executive Board members, senior management directly reporting to Executive Board members and other identified staff.

(amounts in thousands of euros)	2017			2016		
	FIXED REMUNE- RATION	VARIABLE REMUNE- RATION	TOTAL REMUNE- RATION	FIXED REMUNE- RATION	VARIABLE REMUNE- RATION	TOTAL REMUNE- RATION
Executive board members	1,140	74	1,214	1,138	72	1,210
Senior management	2,000	160	2,160	1,816	153	1,969
Other identified staff	1,961	199	2,160	1,691	156	1,847
TOTAL	5,101	433	5,534	4,645	381	5,026

In addition, the bank pays a monthly employer's pension contribution. Since 1 January 2015, pension accrual over salary in excess of EUR 100,000 is no longer possible under the current ABP pension plan. This means that pension accrual is capped at a pensionable income of EUR 100,000. As a consequence of this cap for tax purposes and the lower pension accrual, BNG Bank decided to supplement the remuneration for the employees concerned who were in the bank's employment on 1 January 2015 with the employer's pension contribution in 2015.

REMUNERATION OF THE EXECUTIVE BOARD

The remuneration of the Executive Board is based on the principles formulated in the Remuneration Policy, the highlights of which are included in the Report of the Supervisory Board. The complete Remuneration Policy is published on bngbank.nl. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the general Collective Labour Agreement for the banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

REMUNERATION AWARDED TO EXECUTIVE BOARD MEMBERS

(amounts in thousands of euros)

	2017	2016	2017	2016	2017	2016	2017	2016
	FIXED REMUNERATION		VARIABLE REMUNERATION*		COMPENSATION FOR PENSION ACCRUAL OVER SALARY >100K		PENSION CONTRIBUTIONS	
C. van Eykelburg	457	456	41	40	114	113	21	24
O.J. Labe	321	320	–	–	29	29	23	20
J.C. Reichardt	362	362	33	32	35	35	25	21
TOTAL	1,140	1,138	74	72	178	177	69	65

* This is one half of the variable remuneration. The other half of the variable remuneration is awarded conditionally and paid out in three years' time, provided the achievement of the associated targets has not jeopardised BNG Bank's long-term continuity. Assigned – as yet unpaid – variable remuneration can also be adjusted on the grounds of (incorrect) financial information, or unethical or non-compliant behaviour.

DEFERRED VARIABLE REMUNERATION

(amounts in thousands of euros)

	2017	2016	2015	2014*
C. van Eykelenburg	41	40	54	32
O.J. Labe	–	–	–	–
J.C. Reichardt	33	32	36	25
TOTAL	74	72	90	57

DEFERRED VARIABLE REMUNERATION OF FORMER EXECUTIVE BOARD MEMBERS

	2017	2016	2015	2014*
J.J.A. Leenaars	–	–	12	24

* The Supervisory Board has established that the achievement of the associated qualitative and quantitative targets set in 2014 have not jeopardized BNG Bank's long-term continuity. The pay out of the deferred conditional variable remuneration for 2014 will be in March 2018.

The remuneration awarded in the reporting period is the remuneration which has been recognised as an expense in full in the income statement. The income statement for 2017 includes EUR 1 million (2016: EUR 1 million) in remuneration and pension costs. The total short-term remuneration comprises the fixed remuneration, the variable remuneration and the compensation for pension accrual over salary in excess of EUR 100,000.

The variable remuneration for 2017 has been capped at 20% (2016: 20%) of the defined components of the fixed remuneration. The award of the variable remuneration depends on the degree to which the objectives set by the Supervisory Board have been achieved. Following the Selection and Appointment Committee's advice, the Supervisory Board determined the degree to which the 2016 variable remuneration targets were met by the Executive Board members. Detailed information on this is included in the report of the Supervisory Board to the shareholders. The achievement of the 2017 variable remuneration targets resulted in an allowance of 90% of the maximum variable remuneration (2016: 88.5%). The Executive Board members received an allowance for business expenses of EUR 3,900 in 2017 (2016: EUR 3,900). Because of the new remuneration policy for the Executive Board, this allowance will be increased in 2018 for the Chair of the Executive Board to EUR 5,100. The allowance for the other members of the Executive Board will remain at EUR 3,900.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was amended by the Extraordinary General Meeting of Shareholders in 2016, effective from 1 January 2017. The total remuneration of the Supervisory Board will increase by 2% as a result of this change. This percentage is in line with increases under the Collective Labour Agreement for the Banking Industry in 2015 and 2016. The remuneration of the Supervisory Board can increase by the same percentage as the increases under the Collective Labour Agreement from 2017. The Supervisory Board's committee structure is also

changing with effect from 1 January 2017. The Market Strategy Committee will be dissolved and the Audit & Risk Committee has been divided into an Audit Committee and a Risk Committee. The remuneration policy has been amended accordingly.

The policy is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit Committee, Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chair of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,000 (2016: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit Committee and Risk Committee) and EUR 250 (Remuneration Committee and Human Resource Committee), respectively. Former Supervisory Board members receive no remuneration.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The amounts presented below are in thousands of euros. These figures include additional payments and exclude expense allowances and VAT.

	2017	2016
Ms M. Sint, Chair	46	42
J.J. Nooitgedagt, Vice-chair and Secretary	38	29
C.J. Beuving	35	35
L.M.M. Bolsius	25	26
T.J.F.M. Bovens	25	26
J.B.S. Conijn	32	26
Ms P.H.M. Hofsté (until 20 April 2017)	13	29
Ms J. Kriens	29	32
J.C.M. van Rutte	32	29
TOTAL	275	274

Off-balance sheet commitments

CONTINGENT LIABILITIES

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

	31/12/2017	31/12/2016
Contingent liabilities	78	105

REVOCABLE FACILITIES

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

	31/12/2017	31/12/2016
Revocable facilities	5,839	6,998

IRREVOCABLE FACILITIES

This includes all irrevocable commitments which can lead to the granting of loans and advances, and is divided as follows.

	31/12/2017	31/12/2016
Outline agreements concerning the undrawn part of credit facilities	5,196	4,566
Contracted loans and advances to be distributed in the future	1,669	2,337
TOTAL	6,865	6,903

According to contract, these contracted loans and advances will be distributed as follows:

	31/12/2017	31/12/2016
Up to 3 months	340	566
3 to 12 months	446	576
1 to 5 years	846	1,106
Over 5 years	37	89
TOTAL	1,669	2,337

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 1.9% (2016: 1.6%). BNG Bank also states these obligations at the underlying, not yet recorded, principal amount.

Encumbered financial assets and liabilities

A part of the financial assets and liabilities is encumbered because these assets serve to secure and act as collateral for money market transactions and lending transactions. The following table shows the balance sheet values and the collateral values.

	31/12/2017		31/12/2016	
	NOMINAL VALUE	COLLATERAL VALUE	NOMINAL VALUE	COLLATERAL VALUE
TYPE OF COLLATERAL				
Collateral pledged to the central banks*	14,520	9,769	13,726	9,564
Securities provided in derivatives transactions	343	434	170	254
Cash deposited in relation to derivatives transactions	13,896	13,892	11,544	11,541
GIVEN AS COLLATERAL	28,759	24,095	25,440	21,359
Securities received in derivatives transactions	0	0	0	0
Cash received in relation to derivatives transactions	369	369	1,776	1,776
RECEIVED AS COLLATERAL	369	369	1,776	1,776
TOTAL	28,390	23,726	23,664	19,583

* Of the total value of loans provided as collateral to the central bank, only a limited part has actually been used as collateral by the central bank. At year-end 2017, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 412 million (year-end 2016: EUR 306 million).

Liability of board members

Members of the Executive and Supervisory Boards of the company are indemnified by the company against any personal liability, except in the case of deliberate intent or gross negligence. In addition, the company has taken out a directors' liability insurance policy for members of the Executive and Supervisory Boards and employees acting on the company's behalf as members of the Executive Board or Supervisory Board of one or more of the company's associates.

Events after the balance sheet date

There are no events after the balance sheet date to report that require adjustments to the figures or disclosure in the financial statements.

Long-term capitalisation and dividend policy

The capitalisation and dividend policy will be considered in light of the upcoming changes in prudential regulations that compel banks to retain more capital. The new regulations as well as the current capitalisation, relative to the proposed minimum standards, resulted in the standard dividend pay-out percentage being lowered from 50% to 25% as of the financial year 2011. The lowering of the standard pay-out percentage applies, in principle, to the period until 2018, which is the year in which the bank expected the new minimum leverage ratio to come in charge. The decision making in Europe, however, on this and other solvency and liquidity related issues (known as CRRII/CRDV) is taking more time to be finished. BNG Bank's expectation is that the bank's capitalisation in the near future will be sufficient to meet the capital requirement, although the transition to IFRS 9 will have a negative impact on capital and the uncertainty concerning the final decision by the European Union remains. The decision is now expected towards the end of 2018. Thereafter BNG Bank will give substance to a renewed capitalisation and dividend policy. In 2017, the positive development of level of the leverage ratio raises the opportunity to increase the pay-out percentage to 37.5%.

Proposed profit appropriation

Amounts in millions of euros

	2017	2016
NET PROFIT	393	369
Dividend distribution on Hybrid capital	-18	-4
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	375	365
APPROPRIATION OF PROFIT ATTRIBUTABLE TO THE BANK'S SHAREHOLDERS IS AS FOLLOWS:		
Appropriation to the Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	37	37
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	44	44
Appropriation to the Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	197	237
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	134	84
	331	321

The profit appropriation is based on the total net profit for 2017. The dividend distribution takes into account the EUR 18 million dividend (after tax) already paid on the hybrid capital in May 2017 charged to the Other reserves.

Associates and joint ventures

	31/12/2017	31/12/2016
ASSOCIATES		
Dataland BV, Rotterdam A municipal non-profit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.	30%	30%
Data B Mailservice Holding BV, Leek Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.	45%	45%

	31/12/2017	31/12/2016
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have an equal voting right, which means that no single party has control.		
Ontwikkelingsbedrijf Bedrijvenpark Pannenberg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenberg Beheer BV te Nederweert Development and allocation of land for industrial estates	50%	50%
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	80%	80%
Zenkeldamshoek Beheer BV, Goor Development and allocation of land for industrial estates	50%	50%
De Bulders Woningbouw CV	50%	50%
De Bulders Woningbouw BV Development and allocation of land for industrial estates	50%	50%
Continued on next page		

Continuation of previous page	31/12/2017	31/12/2016
Ontwikkelingsmaatschappij Westergo CV, Harlingen	50%	50%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' CV, The Hague	50%	50%
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' BV, The Hague	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague	50%	50%
ROM-S Beheer BV (Schelluinen) te The Hague	50%	50%
Development and allocation of land for industrial estates and car parking facilities		
Project Suijssenwaerde CV, The Hague	80%	80%
Project Suijssenwaerde Beheer BV, The Hague	50%	50%
Development and allocation of land for residential construction and recreational housing		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		
SGN Bestaand Rijsenhout CV, The Hague	50%	50%
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	43%
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	50%
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	50%
SGN Advies BV Beheer, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Groep BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
ROM-D CV, The Hague	11%	29%
ROM-D Beheer NV, The Hague	25%	25%
Development and allocation of land for industrial estates		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		
Continued on next page		

Continuation of previous page	31/12/2017	31/12/2016
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
Waalwaardwonen CV, Zaltbommel	0%	50%
Waalwaardwonen BV, Zaltbommel	0%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		
JOINT OPERATIONS ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV	31/12/2017	31/12/2016
Vastgoedontwikkeling Handelskade Oude Tonge VOF, Oude Tonge	0%	50%
Construction of recreational housing and shops		

Summarised financial information

	31/12/2017	31/12/2016
ASSOCIATES		
Balance sheet value of investment (note 8)	3	3
VALUE OF THE SHARE IN:		
Total assets	4	4
Total liabilities	1	1
Income	9	8
Result from continued operations	1	1
Equity	3	3
Comprehensive income	3	3

	31/12/2017	31/12/2016
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Balance sheet value of investment (note 8)	44	43
VALUE OF THE SHARE IN:		
Total assets	103	115
Total liabilities	61	85
Income	28	15
Result from continued operations	7	-7
Equity	42	30
Comprehensive income	42	30

BNG Gebiedsontwikkeling (a wholly-owned BNG Bank subsidiary) invests in and develops land on its own account in collaboration with local authorities. This collaboration takes the form of a joint venture involving the use of limited partnerships. The risk incurred by BNG Bank is the total amount of capital invested in the participating interest, increased by further future payments obligations and retained profits. At year-end 2017, this risk amounted to EUR 46 million (2016: EUR 44 million), of which EUR 2 million related to future payment obligations (2016: EUR 1 million). The year 2017 showed a recovery in land sales due to the positive economic

developments. The income from the land sales contributed to the improved financial position of the participating interests. Given the results in the recent past, however, additional impairments cannot be ruled out.

Involvement in
non-consolidated
structured entities

Scope
Involvement in entity (balance sheet value/size in %)
BALANCE SHEET VALUE OF INTEREST/INVESTMENT:
Financial assets at fair value through the income statement (from note 3)
Financial assets available-for-sale (from note 5)
Loans and advances (from note 6)
TOTAL BALANCE SHEET VALUE
Maximum exposure
Ratio of balance sheet value vs maximum exposures
AMOUNT IN REVENUE PER TYPE:
Fund return
Management fee
Interest income
Results from sales
TOTAL REVENUE
LOSS ON INVESTMENT DURING REPORTING PERIOD:
Through equity
Through the income statement
TOTAL LOSSES

2017			
SECURITI- SATIONS	COVERED BONDS	BNG DEPOSIT FUND	TOTAL
34,120	1,195		35,315
10%	4%		10%
208	–		208
2,416	–		2,416
682	50		732
3,306	50		3,356
3,306	50		3,356
1	1		1
N/A	N/A		
N/A	N/A		
11	10		21
1	–2		–1
12	8		20
–	–		–
5	–		5
5	–		5

	2016			
	SECURITI- SATIONS	COVERED BONDS	BNG DEPOSIT FUND	TOTAL
Scope	27,843	18,445	–	46,288
Involvement in entity (balance sheet value/size in %)	13%	3%	–	9%
BALANCE SHEET VALUE OF INTEREST/INVESTMENT:				
Financial assets at fair value through the income statement (from note 3)	233	245	–	478
Financial assets available-for-sale (from note 5)	2,493	–	–	2,493
Loans and advances (from note 6)	762	327	–	1,089
TOTAL BALANCE SHEET VALUE	3,488	572	–	4,060
Maximum exposure	3,488	572	–	4,060
Ratio of balance sheet value vs maximum exposures	1	1	–	1
AMOUNT IN REVENUE PER TYPE:				
Fund return	N/A	N/A	–	–
Management fee	N/A	N/A	–	–
Interest income	11	23	–	34
Results from sales	1	7	29	37
TOTAL REVENUE	12	30	29	71
LOSS ON INVESTMENT DURING REPORTING PERIOD:				
Through equity	–	3	–	3
Through the income statement	0	2	–	2
TOTAL LOSSES	0	5	–	5

INVOLVEMENT IN NON-CONSOLIDATED SECURITISATION AND COVERED BOND PROGRAMMES VIA STRUCTURED ENTITIES

BNG Bank has investments in securitised interest-bearing securities covered by additional security through non-consolidated structured entities. Mortgage portfolios serve as collateral for the securitisations and covered bonds. The funds invested by investors, including BNG Bank, serve to finance the underlying mortgages. The structured entities are independent entities that do not carry out any activities other than managing investments and the associated money flows. Apart from its interest as an investor in interest-bearing securities, BNG Bank has not financed these structured entities or supported them in any other way, nor does it have any intention to do so in the near future. The bank has not transferred any assets to these structured entities.

The Hague, 9 March 2018

EXECUTIVE BOARD

MS G.J. SALDEN, CHAIR (APPOINTED 1 JANUARY 2018)

O.J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR

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

C.J. BEUVING

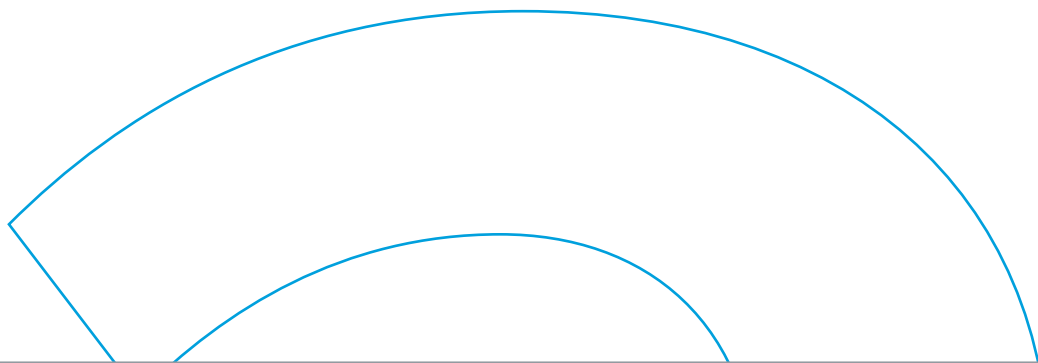
L.M.M. BOLSIUS

T.J.F.M. BOVENS

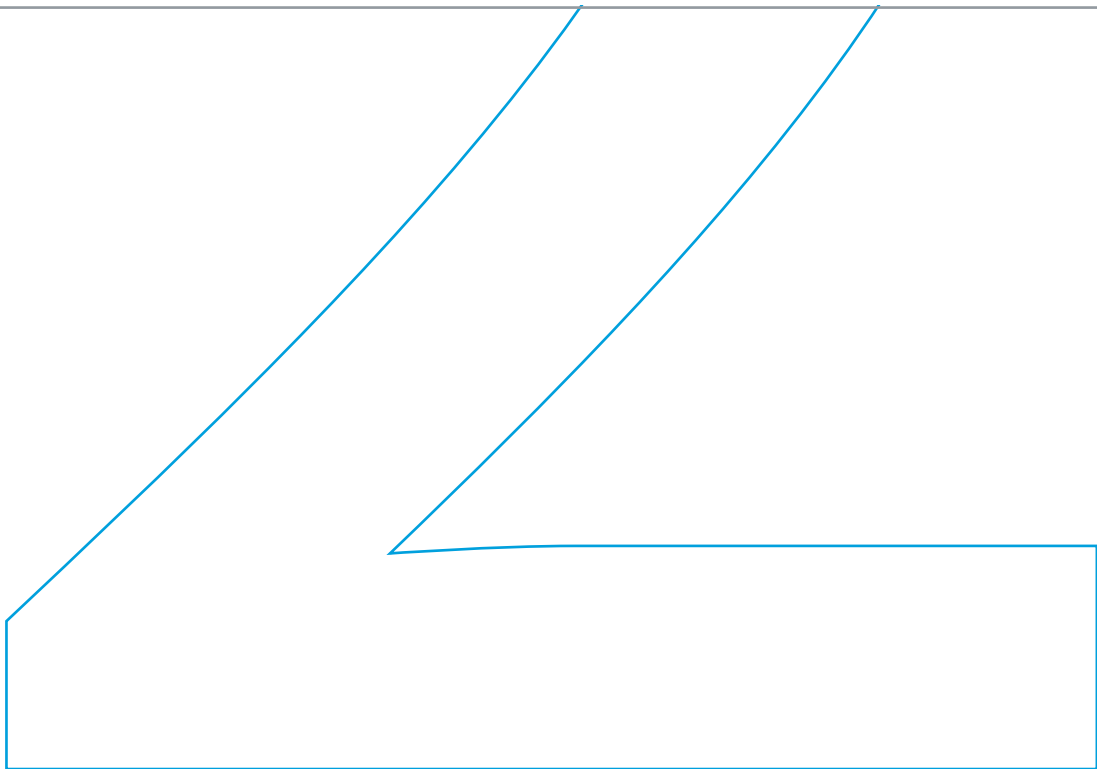
J.B.S. CONIJN

MS J. KRIENS

J.C.M. VAN RUTTE



Company financial statements



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COMPANY BALANCE SHEET

Amounts in millions of euros

		31/12/2017	31/12/2016
ASSETS			
	NOTE		
Cash and balances held with the central banks	1	2,996	6,417
Amounts due from banks	2	13,997	11,795
Financial assets at fair value through the income statement	3	2,006	2,350
Derivatives	4	8,982	15,412
Financial assets available-for-sale	5	14,110	15,437
Loans and advances	6	85,979	87,547
Value adjustments on loans in portfolio hedge accounting	7	11,813	14,894
Participating interests	8	60	55
Property & equipment	9	17	17
Other assets	10	19	56
Assets held-for-sale	11	30	–
TOTAL ASSETS		140,009	153,980
LIABILITIES			
Amounts due to banks	12	2,393	3,530
Financial liabilities at fair value through the income statement	13	944	1,190
Derivatives	14	21,870	24,780
Current tax liability	15	15	33
Deferred tax liability	15	173	116
Debt securities	16	104,127	112,180
Funds entrusted	17	5,461	7,544
Subordinated debt	18	31	31
Other liabilities	19	42	90
TOTAL LIABILITIES		135,056	149,494
Capital		139	139
Share premium reserve		6	6
Statutory reserves:			
– Revaluation reserve		268	275
– Cash flow hedge reserve		193	3
– Reserve for fair value increases		104	95
Other reserves		3,117	2,866
Unappropriated profit		393	369
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	20	4,220	3,753
Hybrid capital	20	733	733
TOTAL EQUITY	20	4,953	4,486
TOTAL LIABILITIES AND EQUITY		140,009	153,980

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

		2017	2016
COMPANY INCOME STATEMENT			
Amounts in millions of euros			
	NOTE		
– Interest income	21	5,903	6,123
– Interest expense	22	5,469	5,720
Interest result		434	403
– Commission income	23	26	27
– Commission expense	24	3	3
Commission result		23	24
Result on financial transactions	25	180	118
Results from participating interests	26	7	–
Result from sales of assets held for sale	27	–	34
Other results	28	–	–
TOTAL INCOME		644	579
Staff costs	29	42	36
Other administrative expenses	30	25	25
Depreciations	31	2	2
TOTAL OPERATING EXPENSES		69	63
Impairments	32	–4	–38
Contribution to resolution fund	33	9	16
Bank levy	33	36	35
TOTAL OTHER EXPENSES		41	13
PROFIT BEFORE TAX		534	503
Taxes	15	–141	–134
NET PROFIT		393	369
– of which attributable to the holders of hybrid capital		18	4
– of which attributable to shareholders		375	365

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

COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

NET PROFIT

Recyclable results recognised directly in equity

– Changes in cash flow hedge reserve:

– Unrealised value changes

– Realised value changes transferred to the income statement

– Changes in the revaluation reserve for financial assets available-for-sale:

– Unrealised value changes

– Realised value changes transferred to the income statement

– Impairments through the income statement

– Impairments reversed through the income statement

TOTAL RECYCLABLE RESULTS

Non-recyclable results recognised directly in equity (after taxation):

– Movement in the Own Credit Adjustment (OCA) revaluation reserve for
Financial liabilities at fair value through the income statement

(after taxation):

– OCA as at 1 January

– Unrealised value changes in OCA

– Movement in actuarial results

TOTAL NON-RECYCLABLE RESULTS**RESULTS RECOGNISED DIRECTLY IN EQUITY****TOTAL**

– of which attributable to the holders of hybrid capital

– of which attributable to shareholders

2017**2016****393****369**

232

–250

–42

2

190

–248

55

23

–47

–54

–

1

–

–39

8

–69

198**–317**

–

30

–15

–6

–15

24

0

0

–15**24****183****–293****576****76**

18

4

558

72

	2017	2016
COMPANY CASH FLOW STATEMENT		
Amounts in millions of euros		
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	534	503
Adjusted for:		
– Depreciation	2	2
– Impairments	–4	–38
– Unrealised results through the income statement	–133	–53
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	–3,215	–993
– Changes in Loans and advances	1,218	1,434
– Changes in Funds entrusted	–1,773	556
– Changes in Derivatives	–843	1,418
– Corporate income tax paid	–156	–110
– Other changes from operating activities	–221	–269
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	–4,591	2,450
CASH FLOW FROM INVESTING ACTIVITIES		
Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–3,560	–2,565
– Investments in associates and joint ventures	0	0
– Property and equipment	–3	–3
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	287	687
– Financial assets available-for-sale	4,980	1,151
– Assets held for sale		77
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	1,704	–653
Continued on next page		

Continuation of previous page	2017	2016
COMPANY CASH FLOW STATEMENT		
Amounts in millions of euros		
CASH FLOW FROM FINANCING ACTIVITIES		
Amounts received on account of:		
– Hybrid capital	0	310
– Financial liabilities at fair value through the income statement	11	0
– Debt securities	222,828	151,495
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	–183	–546
– Debt securities	–223,076	–149,745
– Subordinated debt	–1	–1
– Dividend distribution on Hybrid capital	–23	–8
– Dividend distribution to shareholders	–91	–57
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	–535	1,448
NET CHANGE IN CASH AND CASH EQUIVALENTS	–3,422	3,245
Cash and cash equivalents as at 1 January	6,421	3,176
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	2,999	6,421
Cash and cash equivalents as at 31 December:		
– Cash and balances held with the central bank	2,996	6,417
– Cash equivalents in the Amount due from banks item	3	4
– Cash equivalents in the Amount due to banks item	0	0
	2,999	6,421
NOTES TO CASH FLOW FROM OPERATING ACTIVITIES		
Interest income received	5,733	5,867
Interest expenses paid	–5,430	–5,536
	303	331

**COMPANY STATEMENT OF
CHANGES IN EQUITY**

Amounts in millions of euros

	SHARE CAPITAL	SHARE PRE- MIUM RESERVE	REVALU- ATION RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR FAIR VALUE INCREA- SES	OTHER RESER- VES	UN- APPRO- PRIATED PROFIT	EQUITY ATTRI- BUTA- BLE TO SHARE- HOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 01/01/2016	139	6	320	251	115	2,682	226	3,739	424	4,163
Net profit							369	369		369
Own Credit Adjustment (OCA) as at 1 January			30					30		30
Movement in OCA in 2016			-6					-6		-6
Unrealised results			-69	-248				-317		-317
TOTAL COMPREHENSIVE INCOME			-45	-248			369	76		76
Issue of hybrid capital						1		1	309	310
Transfer to reserve for fair value increases					-20	20		-		-
Dividend distribution to the bank's shareholders						-57		-57		-57
Dividend distribution to holders of hybrid capital						-6		-6		-6
Appropriation from previous year's profit						226	-226	-		-
BALANCE AS AT 31/12/2016	139	6	275	3	95	2,866	369	3,753	733	4,486
Net profit							393	393		393
Movement in OCA in 2017			-15					-15		-15
Unrealised results			8	190				198		198
TOTAL COMPREHENSIVE INCOME			-7	190			393	576		576
Transfer to reserve for fair value increases					9	-9		-		-
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 31/12/2017	139	6	268	193	104	3,117	393	4,220	733	4,953

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

Accounting principles for the company financial statements

The company financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and adopted throughout the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. As far as the financial accounting principles are concerned, reference is made, with the exception of the accounting principles mentioned below, to the notes to the accounting principles for the consolidated financial statements.

PARTICIPATING INTERESTS

The balance sheet item Participating interests is stated according to the equity method.

STATUTORY RESERVE FOR FAIR VALUE INCREASES

Pursuant to Section 2:390 sub 1 of the Dutch Civil Code, for capital protection purposes a statutory reserve must be maintained at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit) in relation to fair value increases of financial instruments stated as assets in the balance sheet for which there is no regular market quotation.

FOREIGN CURRENCY

The company financial statements are prepared in (millions of) euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank.

CHANGES IN ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the 2017 company financial statements are identical to the figures stated in the 2016 company financial statements.

Notes to the company financial statements

1

CASH AND BALANCES HELD WITH THE CENTRAL BANK

	31/12/2017	31/12/2016
Current account balances with the central bank (due on demand)	2,996	6,417
TOTAL	2,996	6,417

2

AMOUNTS DUE FROM BANKS

The Amounts due from banks item includes all receivables from banks measured at amortised cost, as well as interest-bearing securities issued by banks which were reclassified from available-for-sale to amortised cost.

	31/12/2017	31/12/2016
Short-term loans and current account balances	3	4
Cash collateral	13,892	11,541
Long-term lending	9	10
Interest-bearing securities reclassified from available-for-sale	93	240
TOTAL	13,997	11,795

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2017	31/12/2016
Loans and advances	842	904
Interest-bearing securities	1,164	1,446
TOTAL	2,006	2,350

No new loans and advances or interest-bearing securities were included in this item in 2017. The total redemption value of these loans and advances and securities at year-end 2017 is EUR 1,463 million (2016: EUR 1,724 million). Note 25 Result on financial transactions explains the changes in fair value recognised through the income statement.

4 DERIVATIVES

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

	31/12/2017	31/12/2016
Derivatives not involved in a hedge accounting relationship	273	1,069
Derivatives involved in a portfolio hedge accounting relationship	3,795	4,428
Derivatives involved in a micro hedge accounting relationship	4,914	9,915
TOTAL	8,982	15,412

5 FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments.

	31/12/2017	31/12/2016
Interest-bearing securities, issued by:		
– Governments	7,597	8,225
– Supranational organisations	730	1,217
– Credit institutions	2,259	2,357
– Other financial corporations	2,545	2,629
– Non-financial corporations	979	984
Investments in participating interests	0	25
TOTAL	14,110	15,437

TRANSFERS WITHOUT DERECOGNITION

At year-end 2017 and 2016, BNG Bank had transferred no financial assets in repurchase transactions without derecognition.

6 LOANS AND ADVANCES

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

	31/12/2017	31/12/2016
Short-term loans and current account balances	4,660	4,918
Long-term lending	79,858	81,200
Interest-bearing securities	662	272
Reclassified available-for-sale transactions	831	1,195
	86,011	87,585
Incurred loss provision	-32	-38
TOTAL	85,979	87,547

The EUR 32 million (2016: EUR 38 million) incurred loss provision comprises EUR 18 million (2016: EUR 22 million) in individual provisions and EUR 14 million (2016: EUR 16 million) to the collective provision (IBNI).

	2017	2016
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	-38	-45
Additions during the financial year	-3	-4
Release during the financial year	4	7
Withdrawals during the financial year	5	4
CLOSING BALANCE	-32	-38

7

VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING

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

	2017	2016
MOVEMENTS OF VALUE ADJUSTMENTS ON LOANS IN PORTFOLIO HEDGE ACCOUNTING		
Opening balance	14,894	13,559
Movements in the unrealised portion in the financial year	-2,120	2,818
Amortisation in the financial year	-860	-1,446
Realisation from sales in the financial year	-101	-37
CLOSING BALANCE	11,813	14,894

8

PARTICIPATING INTERESTS

	31/12/ 2017	31/12/ 2016	31/12/ 2017	31/12/ 2016
	PARTICIPATING SHARE		BALANCE SHEET VALUE	
SUBSIDIARIES				
BNG Gebiedsontwikkeling BV, The Hague	100%	100%	51	46
Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	6	6
SUBTOTAL			57	52
ASSOCIATES				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
SUBTOTAL			3	3
TOTAL			60	55

For a description of the bank's subsidiaries and associates, please refer to Appendix A and to the Other notes, respectively, of the consolidated financial statements. For summarised financial information on associates, refer to the 'Other notes to the consolidated financial statements'.

9
PROPERTY AND EQUIPMENT

	2017	2016	2017	2016	2017	2016
	PROPERTY		EQUIPMENT		TOTAL	
HISTORICAL COST						
Value as at 1 January	49	48	17	15	66	63
Investments	0	1	2	2	2	3
Disposals	-	0	-	0	-	0
Value as at 31 December	49	49	19	17	68	66
DEPRECIATION						
Accumulated depreciation as at 1 January	36	34	13	13	49	47
Depreciation during the year	1	2	1	0	2	2
Accumulated depreciation as at 31 December	37	36	14	13	51	49
TOTAL	12	13	5	4	17	17

ESTIMATED USEFUL LIFE	
Buildings	33 ¹ / ₃ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

10
OTHER ASSETS

	31/12/2017	31/12/2016
Various receivables	19	56
TOTAL	19	56

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

11 ASSETS HELD-FOR-SALE

	31/12/2017	31/12/2016
Investments in participating interests	30	–
TOTAL	30	–

The investments in participating interests that are held-for-sale at the end of 2017 concern equity investments in a fund that finances infrastructural projects. This participating interest is expected to be sold in the first half of 2018.

12 AMOUNTS DUE TO BANKS

	31/12/2017	31/12/2016
Current account balances	0	0
Cash collateral received	314	1,698
Deposits	1,832	1,782
Private loans	247	50
TOTAL	2,393	3,530

13 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2017	31/12/2016
Debt securities	715	943
Privately placed debt securities	229	247
TOTAL	944	1,190

The total redemption value of the financial liabilities at year-end 2017 is EUR 765 million (2016: EUR 962 million). Note 25 Result on financial transactions explains the changes in value recognised through the income statement.

14 DERIVATIVES

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

	31/12/2017	31/12/2016
Derivatives not involved in a hedge accounting relationship	1,001	1,134
Derivatives involved in a portfolio hedge accounting relationship	16,598	20,519
Derivatives involved in a micro hedge accounting relationship	4,271	3,127
TOTAL	21,870	24,780

15 TAXES

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

	31/12/2017	31/12/2016
Current tax liability	15	33
Deferred tax liability	173	116
TOTAL	188	149

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellings-overeenkomst') for the period 2013 – 2017. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached. For the period 2018 and thereafter an agreement is not concluded yet due to introduction of the IFRS 9 regulation but the Dutch tax authorities are willing to continue the agreement.

The reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2017	2016
NOMINAL AND EFFECTIVE TAX RATE		
Profit before tax	534	503
Tax levied at the nominal tax rate	-133	-126
Tax adjustment from previous years	0	0
Participation exemption	1	0
Income from the sale of BNG Vermogensbeheer not subject to tax	0	1
Non-deductible expenses (bank levy)	-9	-9
EFFECTIVE TAX IN THE COMPANY INCOME STATEMENT	-141	-134
Nominal tax rate	25.0%	25.0%
Effective tax rate	26.4%	26.6%

	2017			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	0			0
Financial assets available-for-sale	-104	2		-102
Cash flow hedge reserve	-2	-63		-65
Own Credit Adjustment	-8	5		-3
Hybrid capital	-3	-1		-4
Employee benefits provision	1		0	1
TOTAL	-116	-57	0	-173

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

16 DEBT SECURITIES

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

	31/12/2017	31/12/2016
Bond loans	89,896	92,915
Commercial Paper	9,203	14,297
Privately placed debt securities	5,028	4,968
TOTAL	104,127	112,180

17 FUNDS ENTRUSTED

	31/12/2017	31/12/2016
Current account balances	1,857	1,955
Cash collateral received	55	78
Deposits	0	1,317
Private bond loans	3,549	4,194
TOTAL	5,461	7,544

18 SUBORDINATED DEBT

	31/12/2017	31/12/2016
Subordinated debt	31	31
TOTAL	31	31

19 OTHER LIABILITIES

	31/12/2017	31/12/2016
Employee benefits provision	2	3
Other liabilities	40	87
TOTAL	42	90

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

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

	2017	2016
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	3	2
Movements in the provision	-1	1
NET LIABILITY AS AT 31 DECEMBER	2	3

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

20 EQUITY

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

	31/12/2017	31/12/2016
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve		
– Financial assets available-for-sale	259	251
– Financial liabilities at fair value through the income statement ('own credit risk')	9	24
	268	275
Cash flow hedge reserve	193	3
Reserve for fair value increases	104	95
Other reserves	3,117	2,866
Unappropriated profit	393	369
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	4,220	3,753
Hybrid capital	733	733
TOTAL	4,953	4,486

SHARE CAPITAL

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

SHARE PREMIUM RESERVE

There were no movements in 2017 and 2016.

STATUTORY RESERVES

BNG Bank's statutory reserves consist of the revaluation reserve, the cash flow hedge reserve and the reserve for fair value increases.

REVALUATION RESERVE

The revaluation reserve includes EUR 259 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. EUR 10 million (2016: EUR 9 million) of the Revaluation reserve is associated with equity instruments as at 31 December 2017. The revaluation reserve also includes an Own Credit Adjustment of EUR 9 million net of taxes (2016: EUR 24 million). This adjustment relates to financial liabilities measured at fair value through the income statement.

CASH FLOW HEDGE RESERVE

The effective portion of the unrealised changes in the value of derivatives, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The revaluation reserve is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 36 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting.

RESERVE FOR FAIR VALUE INCREASES

This reserve concerns the positive difference between the fair value and the amortised cost of financial instruments stated as assets in the balance sheet for which there is no regular market quotation. This statutory reserve is maintained for capital protection purposes at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit).

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves. In 2017, a dividend of EUR 91 million (2016: EUR 57 million) was paid out to the bank's shareholders for 2016, charged to the Other reserves. EUR 24 million (before tax) was distributed to the holders of the hybrid capital in 2017, charged to the Other reserves. The Other reserves still include a share premium of EUR 0.1 million in total (2016: EUR 1 million).

UNAPPROPRIATED PROFIT

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

HYBRID CAPITAL

The bank's hybrid capital amounts to EUR 733 million. In 2017 no additional hybrid capital was issued. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to compulsory amortisation in the event that the CET1 ratio falls below 5.125%. The payment qualifies as dividend under IFRS and is charged to the Other reserves. The deductibility of this payment for corporate income tax purposes has led to a public debate and the announcement of an enquiry by the European Commission into this subject in relation to potentially incompatible state aid. If the European Commission makes a negative recommendation, this could mean that BNG Bank will be required to repay the tax benefits and/or that future deductibility will no longer be permitted.

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

21 INTEREST INCOME

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

	2017	2016
Financial assets at fair value through the income statement	55	66
Financial assets available-for-sale	244	304
Derivatives	3,225	3,210
Loans and advances	2,323	2,492
Negative interest expenses on financial liabilities	39	36
Other	17	15
TOTAL	5,903	6,123

The interest income in 2017 include EUR 4 million (2016: EUR 4 million) in interest income for financial assets, relating to Financial assets available-for-sale (note 5) and Loans and advances (note 6), which were subject to impairment.

22 INTEREST EXPENSES

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

	2017	2016
Financial liabilities at fair value through the income statement	41	49
Derivatives	3,060	3,220
Debt securities	2,100	2,238
Funds entrusted	127	110
Negative interest income on financial assets	86	91
Other	55	12
TOTAL	5,469	5,720

23 COMMISSION INCOME

This item includes income from services provided to third parties.

	2017	2016
Income from loans and credit facilities	16	18
Income from payment services	10	9
TOTAL	26	27

24 COMMISSION EXPENSES

This item comprises expenses totalling EUR 3 million (2016: EUR 4 million) relating to services rendered by third parties in relation to loans and advances, facilities and payment services.

25 RESULT ON FINANCIAL TRANSACTIONS

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

	2017	2016
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	42	45
– Structured loans	2	2
	44	47
RESULT ON HEDGE ACCOUNTING		
– Portfolio fair value hedge accounting	48	18
– Micro fair value hedge accounting	–24	3
– Micro cash flow hedge accounting	–3	26
	21	47
Change in counterparty credit risk of derivatives (CVA/DVA)	37	–21
Realised sales and buy-out results	52	62
Other market value changes	26	–17
TOTAL	180	118

In 2017, the result on financial transactions was positively affected by unrealised results, mainly due to a slight increase in long-term interest rates. In addition, the reduced credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a positive result.

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

26 RESULTS FROM PARTICIPATING INTERESTS

This item includes the results from participating interests.

	2017	2016
Associates	1	0
Subsidiaries	6	0
TOTAL	7	0

For a description of the subsidiaries and associates, please refer to Appendix A and the Other notes, respectively, of the consolidated financial statements.

27 RESULT FROM SALE OF ASSETS HELD-FOR-SALE

The investments in participating interests that are held-for-sale at the end of 2017 concerns equity investments in a fund that finances infrastructural projects. This investment is expected to be sold in the first half of 2018. After completion the difference between the balance sheet value (including the value recognised in the revaluation reserve) and the sales proceeds will be attributed to this item in the income statement.

28 OTHER RESULTS

	2017	2016
Income from consultancy services	0	0
TOTAL	0	0

29 STAFF COSTS

	2017	2016
Wages and salaries	25	23
Pension costs	4	3
Social security costs	2	2
Additions to the employee benefits provision	–	–
Other staff costs	11	8
TOTAL	42	36

30 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, printing costs, training expenses and advertising expenses. The total other administrative expenses for 2017 amounted to EUR 25 million (2016: EUR 25 million).

31 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 9). In total, the depreciation charges amounted to EUR 2 million in 2017 (2016: EUR 2 million).

32 IMPAIRMENTS

The impairments in 2017 amounted to EUR 4 million negative (2016: EUR 38 million negative). The impairments in 2017 were largely caused by the reversal of impairment on a Spanish securitisation, which had already previously been written off.

	2017	2016
Addition to the incurred loss provision for loans and advances	3	4
Release from the incurred loss provision for loans and advances	–4	–7
Impairment of financial assets available-for-sale	–	4
Reversal of impairment of financial assets available-for-sale	–	–39
Reversal of impairment of reclassified financial assets available-for-sale	–3	–
TOTAL	–4	–38

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

33 CONTRIBUTION TO RESOLUTION FUND AND BANK LEVY

For a breakdown of this item, please refer to note 33 of the Notes to the consolidated financial statements.

34 FEES OF INDEPENDENT AUDITORS (AMOUNTS IN THOUSANDS OF EUROS)

The following audit fees were reported in the income statement:

	2017	2016
Audit of the financial statements	309	309
Other audit-related services	196	145
Tax services	–	–
Other non-audit-related services	7	2
TOTAL	512	456

The fees listed above relate to the procedures applied to the Company and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act (‘Wet toezicht accountantsorganisaties – Wta’). In the case of BNG Bank this is only applicable to Dutch based accounting firms (PwC the Netherlands accountants (‘PwC NL’), including its tax services and advisory groups) as BNG Bank does not make use of foreign based accounting firms. The audit fees relate to the audit of the 2017 financial statements, regardless of whether the work was performed during the financial year.

SUMMARY OF SERVICES RENDERED BY THE INDEPENDENT AUDITOR, IN ADDITION TO THE AUDIT OF THE FINANCIAL STATEMENTS

Our independent auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

OTHER AUDIT SERVICES REQUIRED BY LAW OR REGULATORY REQUIREMENTS

- Statutory audits of controlled entities
- Review of interim financial statements
- Audit of the regulatory returns for the Dutch Central Bank
- Assurance engagement credit claims for the Dutch Central Bank

OTHER AUDIT SERVICES

- Assurance engagement on the sustainability report
- Comfort letters on annual update of debt issuance prospectus and drawdowns under the debt issuance programme

OTHER NON-AUDIT SERVICES

Agreed-upon procedures on request of the Supervisory Board relating the management information used for determining the variable remuneration of management.

35-36-37 **OTHER NOTES**

For the details of items 35, 36 and 37, please refer to the notes to the consolidated financial statements. For the other notes, please refer to the section entitled 'Other notes to the consolidated financial statements'.

REMUNERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

For the details of the remuneration of the Executive Board and the Supervisory Board, refer to the 'Other notes to the consolidated financial statements' section.

The Hague, 9 March 2018

EXECUTIVE BOARD

MS G.J. SALDEN, CHAIR (APPOINTED 1 JANUARY 2018)

O.J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR

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

C.J. BEUVING

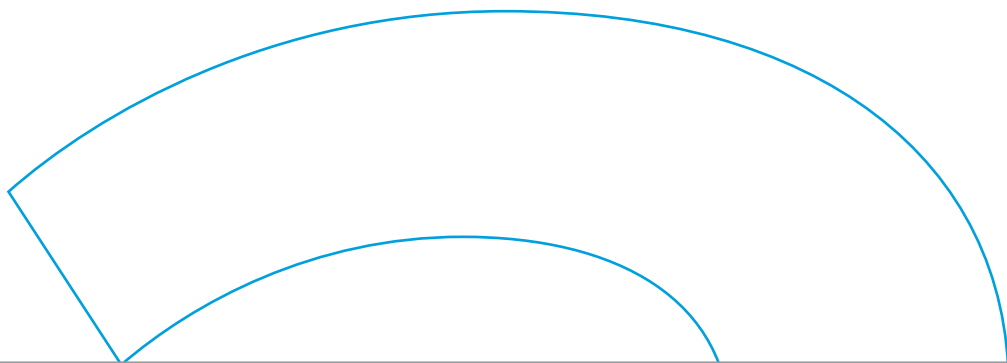
L.M.M. BOLSIUS

T.J.F.M. BOVENS

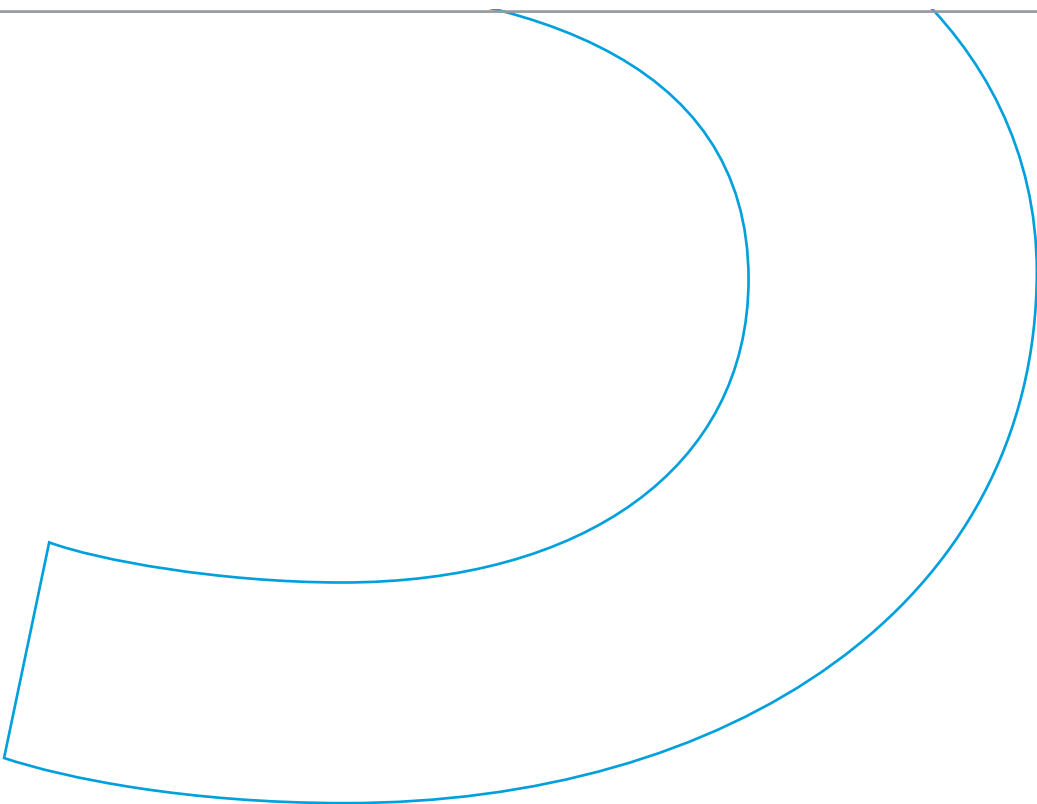
J.B.S. CONIJN

MS J. KRIENS

J.C.M. VAN RUTTE



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Independent auditor's report

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

REPORT ON THE FINANCIAL STATEMENTS 2017

OUR OPINION

In our opinion N.V. Bank Nederlandse Gemeenten's financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

WHAT WE HAVE AUDITED

We have audited the accompanying financial statements 2017 of N.V. Bank Nederlandse Gemeenten, Den Haag ('the Company' or 'BNG Bank'). The financial statements include the consolidated financial statements of N.V. Bank Nederlandse Gemeenten and its subsidiaries (together: 'the Group') and the company financial statements.

The financial statements comprise:

- the consolidated and company balance sheet as at 31 December 2017;
- the following statements for 2017: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and the consolidated and company cash flow statements; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

THE BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of N.V. Bank Nederlandse Gemeenten in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

OUR AUDIT APPROACH

OVERVIEW AND CONTEXT

BNG Bank has a license to conduct banking activities, and it's main activity is providing financing to the Dutch public sector and semi-public domain. The group comprises of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the executive board made important judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the paragraph 'The use of statistics and methods' of the financial statements the Company discloses the areas of judgment and the key elements of estimation uncertainty. Given the significant estimation uncertainty involved in determining the valuation of financial instruments measured at fair value and impairment of loans and advances, we considered these to be key audit matters as set out in the section 'Key audit matters'. Furthermore, we determined the application of hedge accounting to be a key audit matter given the level of complexity and management judgment involved. These three key audit matters remained unchanged compared to 2016. Additionally, we determined the impact of IFRS 9 on the opening balance sheet as of 1 January 2018 to be an additional key audit matter for 2017. This is driven by a combination of the complexity of new models, estimates, assumptions, the impact of the new standard on the 2018 opening balance sheet and the focus by financial statement stakeholders on this disclosure on the impact of this new accounting standard.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud based upon an analyses of potential incentives of the executive board.

Given the importance of IT for the Company and hence for our audit of the financial statements we have, to the extent relevant to our audit, paid specific attention to the IT general controls, which comprise the policies and procedures to ensure a reliable automated processing of information used for financial reporting purposes. BNG Bank has outsourced a large part of its IT activities to Centric FSS as set out in the paragraph in the financial statements related to outsourcing risk. This also has implications for our audit as set out in the section 'The scope of our group audit' of the auditor's report.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a banking institution. We therefore included specialists in the areas of banking activities, IT, as well as valuation of financial instruments and hedge accounting in our team.

Based on these procedures we have compiled our risk analysis and audit plan, which have been discussed and agreed with the executive board and the supervisory board.

The outline of our audit approach was as follows:

MATERIALITY

AUDIT SCOPE

KEY AUDIT MATTERS

MATERIALITY

- Overall materiality: € 26.8 million.

AUDIT SCOPE

- We conducted our audit work on BNG Bank and both of its subsidiaries BNG Gebiedsontwikkeling BV and Hypotheekfonds voor Overheidspersoneel BV
- In our audit on the valuation of participations held by BNG Gebiedsontwikkeling BV we made use of the work performed by another auditor.
- In our assessment of the IT landscape we made use of the ISAE 3402 Type 2 report of Centric FSS.

KEY AUDIT MATTERS

- Valuation of financial instruments measured at fair value.
- Impairment of loans and advances.
- Application of hedge accounting.
- Disclosure on estimated impact of IFRS 9.

MATERIALITY

The scope of our audit is influenced by the application of materiality which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

OVERALL GROUP MATERIALITY	€ 26.8 million (2016: € 25.2 million).
BASIS FOR DETERMINING MATERIALITY	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 5% of profit before tax.
RATIONALE FOR BENCHMARK APPLIED	We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that benchmark profit before tax is an important metric for the financial performance of the Company.
COMPONENT MATERIALITY	BNG Gebiedsontwikkeling BV and Hypotheekfonds voor Overheidspersoneel BV were audited based on a statutory audit materiality, that was applicable to these entities as part of their statutory audits, and which was lower than our overall group materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 1.3 million (2016: € 1.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

THE SCOPE OF OUR GROUP AUDIT

BNG Bank is the parent company of a group with BNG Gebiedsontwikkeling BV and Hypotheekfondsen voor Overheidspersoneel BV as its subsidiaries. The financial information of these subsidiaries is included in the consolidated financial statements of the group. The statutory audits of BNG Gebiedsontwikkeling BV and Hypotheekfondsen voor Overheidspersoneel BV were performed by the same audit team that performed the audit of the Company. As a result of this approach all consolidated positions and transactions in the financial statements were part of our audit.

In our audit of the valuation of participations held by BNG Gebiedsontwikkeling BV we made use of the work performed by another auditor. We determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole. We have sent specific instructions to the other auditor and performed a file review of the audit file of the other auditor.

BNG Bank has outsourced the largest part of its IT activities and payment services to Centric FSS. In our assessment of the IT landscape, we made use of the ISAE 3402 Type 2 report from Centric FSS. In this context, we have been involved in planning the ISAE 3402 work by the external auditor of Centric FSS, discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 assurance report once it was finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of BNG Bank, we could rely on the ISAE 3402 Type 2 assurance report of Centric FSS.

By performing the procedures above at subsidiaries, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
<p>VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE</p> <p>REFER TO THE ACCOUNTING POLICY ‘FAIR VALUE OF FINANCIAL INSTRUMENTS’ AND THE DISCLOSURE NOTE ‘FAIR VALUE OF FINANCIAL INSTRUMENTS’ IN THE CONSOLIDATED FINANCIAL STATEMENTS</p> <p>BNG Bank has financial instruments on its balance sheet which are measured at fair value and classified as financial assets or liabilities at fair value through the income statement, financial assets available-for-sale or derivatives. The portfolio consists of € 16,116 million of financial assets of which € 4,609 million are classified as level 2 and € 623 million as level 3 instruments. Financial liabilities measured at fair value are in total € 944 million which are all classified as level 2 instruments. The derivative portfolio with a negative net fair value of € 12,888 million contains for 99% level 2 instruments and 1% level 3 instruments.</p> <p>For financial instruments in an active market and for which observable quoted market prices or other market information is available, there is a high degree of objectivity involved in the determining the fair value (level 1 instruments). However, when observable quoted market prices or other market information is not available, the fair value of financial instruments is inherently subject to management judgment. The fair value of those financial instruments (level 2 and level 3 instruments) are determined using discounted cash flow models, option pricing models, modelling of double default effects and valuation techniques in which judgments made by management and the use of assumptions and estimates such as market prices, curves, credit and liquidity spreads, cross-currency basis spreads, correlations and volatilities are important factors. The main assumptions and estimates used relate to the recovery rate and correlation of monoline insurers, liquidity spreads in the spread curve used for valuing structured interest-bearing securities and determining the own funding curve for currencies with low degree of marketability. For derivatives for which BNG Bank has no strong credit support annex in place a Credit</p> <p>Continued on next page</p>	<p>Our audit work included, amongst others, understanding, evaluating and testing the design and operating effectiveness of controls within the valuation process, including the techniques, assumptions and estimates which are used therein. Based on this work we concluded that, to the extent relevant for our audit, we could rely on these controls.</p> <p>For structured interest-bearing securities which are classified as financial assets and liabilities at fair value through the income statement, financial assets available-for-sale and derivatives, we, with the assistance of our valuation specialists, tested the appropriateness of the valuation methodologies and models applied and considered them to be fit for purpose.</p> <p>For derivative instruments we examined the portfolio reconciliation with counterparties and the follow-up of any differences reported to provide audit evidence about the appropriateness of management’s valuation.</p> <p>For those financial instruments we have compared the general input data used in the valuation models, such as curves and cross-currency basis spreads, to the extent possible to independent sources and external available market data and we assessed these inputs to be in line with market and industry practice.</p> <p>Methodology and underlying assumptions of key valuation adjustments, including credit and debit valuation adjustment and the estimation of the own funding curve, were assessed, and compared with current industry practice. For the own funding curve we evaluated the reasonableness of the estimation of the long-end of the curve given the limited observable transactions and market data available.</p> <p>We performed an independent valuation of a sample of positions, taking into consideration different categories of financial instruments divided in, amongst others, maturity, currency classes and various valuation models applied, to determine if management’s valuation fell within a</p>

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
<p>Valuation Adjustment (CVA) is estimated in the calculation of the fair value.</p> <p>As of 31 December 2017 for BNG Bank this consist of structured interest-bearing securities which are classified as either financial assets or financial liabilities at fair value through the income statement or financial assets available-for-sale and more complex derivatives that contains optionality’s and constant maturity features.</p> <p>Given the level of management judgment and complexity involved in determining the fair value of these level 2 and 3 financial instruments we determined this to be a key audit matter in our audit. Given the size of the financial instruments, any deviation in the main assumptions could have a significant impact on result and equity.</p>	<p>reasonable range. Where there are assumptions, estimates and judgments made by management, we have made use of our internal valuation specialists in assessing and evaluating these assumptions and estimates by comparing these to market data for similar instruments. For valuations depending on unobservable inputs, we evaluated the assumptions, methodology and models applied by management for estimating the inputs. On the basis of the work carried out by us we determined that, given the inherent estimation uncertainty involved in the valuation of financial instruments, management’s valuation of these instruments fell within an acceptable range of outcomes.</p> <p>We evaluated the adequacy of the disclosures with respect to the valuation methodologies applied, significant estimation uncertainties, significant sensitivities and the unobservable inputs applied by management in estimating the fair values of the financial instruments.</p>
<p>IMPAIRMENT OF LOANS AND ADVANCES</p> <p>REFER TO THE ACCOUNTING POLICY ‘IMPAIRMENT OF FINANCIAL ASSETS’ AND NOTE 6 ‘LOANS AND ADVANCES’ IN THE CONSOLIDATED FINANCIAL STATEMENTS</p> <p>The lending to clients classified as loans and advances measured at amortized cost amounts to € 86 billion as at 31 December 2017. Most of the loan portfolio relates to loans that are guaranteed by a (central) government body or by the WSW and WfZ guarantee funds. The credit risk inherent in this category is limited as explained in the risk paragraph in the financial statements. The remaining loans (€ 8.3 billion) have a higher risk of shortfalls in expected future cash flows from repayments and collateral values.</p> <p>BNG Bank determines whether there are indications of impairment on individual loans. As required by IAS 39, an impairment is recognized for credit losses that incurred before or at the balance sheet date. For loans where there</p>	<p>Our audit work included, amongst others, understanding, evaluating and testing the design and operating effectiveness of controls in the lending and credit risk mitigation process. These include, amongst others, controls aimed at identifying indicators for impairment and determining the loan loss provision. Based on this work performed, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purpose of our audit.</p> <p>For loans that are guaranteed by WSW and Wfz we have obtained a confirmation confirming all guaranteed loans by both parties.</p> <p>For a sample of unguaranteed loans, which are not identified by management as a higher risk of a potential impairment, we assessed whether there has been no indication for impairment by, for example, determining that there are no significant arrears in payments, taking notice of the latest annual creditworthiness check and evaluating available</p>
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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
<p>is an indication of impairment an estimate, at counterparty level, of the present value of future cash flows is made using a discounted cash flow method. Assumptions which are made in this impairment process consist of estimating the expected proceeds from the forced sale of collateral, the financial condition of the borrower, estimation of other cash flows still to be received, the timing of such cash flows and the discount rate. Loans for which no objective evidence of impairment exists are included in the calculation of the incurred but not identified provision ('IBNI'). Key assumptions applied in calculating IBNI consist of the exposure at default ('EAD'), probability of default ('PD'), loss given default ('LGD') and the loss emergence period ('LEP'). For the PD and LGD estimation limited historical data is available given the low default portfolio and as such this is subject to high degree of professional judgment applied by management. In 2017, BNG Bank has recorded a net impairments release of € 4 million on loans and advances.</p> <p>Given the level of management judgment involved in identifying indications for impairment, determining the expected future cash flows and the possible impact of a potential impairment on result and equity, we have identified the impairment of non-guaranteed loans and advances as a key audit matter in our audit.</p>	<p>financial information of counterparties. Our procedures did not return any different outcomes as management.</p> <p>For a sample of unguaranteed loans where an indication for impairment is identified, we evaluated the estimation for the impairment made by management. In doing so we tested the assumptions made by management regarding the level and timing of future cash flows, like the financial condition of the counterparty, the estimate of other cash flows still to be received and the discount rate, based on financial information, market information, and, if available, alternative scenarios. We also inspected the legal agreements and documentation to confirm the existence and legal right to collateral and evaluated the collateral valuation against external valuations. We found no material exceptions in these tests.</p> <p>For the IBNI loss provision we tested the key model assumptions (such as the EAD, PD, LGD and LEP) by comparing these to available market data and best practices within the market. For PD and LGD applied we, amongst others, assessed the reasonableness of the methodology and the overlays applied and assesses that internal ratings are internally reviewed before they are approved by the credit risk committee. We considered the assumptions made by management reasonable and noted no material exceptions in our tests.</p>
<p>APPLICATION OF HEDGE ACCOUNTING</p> <p>REFER TO THE ACCOUNTING POLICY 'HEDGE ACCOUNTING' IN THE CONSOLIDATED FINANCIAL STATEMENTS</p> <p>BNG Bank enters into derivatives to hedge its interest rate risk and variability in cash flows. By applying hedge accounting, the results of the hedged item and the hedging instrument are recognized simultaneously in the income statement to neutralise the impact on the result, to the extent the hedging relationship is effective. BNG Bank</p> <p>Continued on next page</p>	<p>Our audit work included, amongst others, understanding, evaluating and testing the design and operating effectiveness of controls relating to the documentation and review of hedge relationships, including testing the hedge ineffectiveness by management. Based on this work, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purpose of our audit.</p> <p>For a random selection of hedging relationships, covering both fair value and cash flow hedge accounting relationships, we verified that hedge documentation</p>

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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
<p>applies fair value hedge accounting to hedge interest rate risks and cash flow hedge accounting with respect to variability in cash flows as a result of cross-currency fluctuations. For interest rate risk BNG Bank applies micro fair value hedging as well as portfolio fair value hedging. To apply hedge accounting, BNG Bank must meet the strict IAS 39 requirements. These include amongst others:</p> <ul style="list-style-type: none">– Documentation of hedging relationships in formal hedge documentation;– Performing hedge effectiveness testing; and– Processing the results of the effectiveness tests in the financial statements. <p>BNG Bank has developed specific models for calculating hedge effectiveness. The determination of the effectiveness is complex and involves significant management judgment. As per management’s assessment, both portfolio hedging and micro hedging within BNG Bank have been highly effective in recent years.</p> <p>Given the technical requirements for the application of hedge accounting and that incorrect application of these requirements could have a material impact on result and equity, we have considered this a key audit matter in our audit.</p>	<p>complied with the hedge objectives and the requirements of EU-IFRS. We found no exceptions in these tests.</p> <p>In addition, we, assisted by our hedge accounting specialists tested the models used by BNG Bank for calculating hedge effectiveness and evaluate the results of the hedge effectiveness tests for both micro and portfolio hedging. For a small number of relationships that fell outside the IAS 39 defined bandwidth we obtained additional analysis performed by management in order to prove the effectiveness of these hedge relationships. We found the additional analysis supported by appropriate audit evidence. We tested the reconciliation between the results of the effectiveness tests and the hedge adjustments in the financial statements. We found no material exceptions during our testing of the models and the reconciliation.</p>
<p>DISCLOSURE ON ESTIMATED IMPACT OF IFRS 9</p> <p>REFER TO THE SECTION ‘EXPLANATION OF THE CONSEQUENCES OF IFRS 9’ IN THE CONSOLIDATED FINANCIAL STATEMENTS</p> <p>IFRS 9 ‘Financial Instruments’ becomes effective for annual reporting periods beginning on or after 1 January 2018. The possible impact of the application of IFRS 9 needs to be disclosed as required by IAS 8. As it is expected that IFRS 9 will have a significant impact on the 2018 financial statements of financial institutions, we believe that the disclosure will likely be important to stakeholders. Given the estimated impact of this new accounting standard on</p>	<p>Regarding the accounting policy choices we reviewed the prospective accounting policy to determine whether this has been set up in accordance with the requirements of IFRS 9. We challenged management on their accounting policy choices judgements and they provided us with reasonable explanations and evidence supporting the judgements. We obtained an understanding of the client’s implementation process for determining the possible impact of adoption, including an understanding of the entity’s systems, processes and controls.</p> <p>For the estimated impact of IFRS 9 in connection with impairments, our audit work including understanding and</p>
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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
<p>the opening balance sheet as at 1 January 2018 and the accounting policy choices and assumptions to be taken by management on the implementation of IFRS 9, we consider this a key audit matter in our audit.</p> <p>The key judgements and estimation uncertainty specific to IFRS 9 is primarily linked to the following elements:</p> <ul style="list-style-type: none">– On classification and measurement of financial instruments, management has performed an assessment to conclude whether the cash-flows from financial instruments fulfil the solely of payment of principal and interest criteria (‘SPPI’). In particular, for structured interest-bearing securities classified as contractually linked or non-recourse, management has to apply judgement as IFRS 9 requires an entity to ‘look through’ a financial instrument to the underlying asset pool to conclude that it comprises of financial instruments that meet SPPI or includes financial instruments that align specified cash flow mismatches or reduce cash flow variability. This makes the assessment complex and creates a high hurdle to demonstrate that an instrument meets the SPPI test. The expected impact of classification and measurement on the opening balance sheet as at 1 January 2018 based on IFRS 9 amounts to € 5 million positive.– With respect to hedge accounting there are no implications for macro hedge accounting as IAS 39 remains in force in 2018. Micro hedge accounting has changed under IFRS 9. The key change for BNG Bank on micro hedge accounting is that cross-currency basis risk of a derivative contract can be separated and excluded from the designated hedging instrument and treated as cost of hedging. This means that fair value movements arising from the cross-currency basis spread included in the valuation of derivatives which are used in hedge accounting can be separated and accounted for as cost of hedging within OCI and accumulated in in a separate item in equity and subsequently reclassified to profit or loss in the same periods during which the hedged expected future cash flows affect profit or loss. In doing so, management has	<p>evaluating the controls in place to determine individual credit ratings and tested the design and operating effectiveness of controls to the extent possible. Based on this work performed, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purposes of our audit.</p> <p>Our audit work comprised of the following procedures:</p> <ul style="list-style-type: none">– In connection with classification and measurement we paid specific attention to the SPPI test performed for structured interest-bearing securities. We reperformed a sample of SPPI tests performed by management and in addition, performed an independent SPPI test on a sample of financial instruments. Our sample was risk based and covered a range of different type of financial assets taking the complexity into consideration. As part of our testing we analysed supporting documents (mainly transaction documentation such as prospectuses and term sheets) to evaluate whether the SPPI requirements in IFRS 9 are met.– For IFRS 9 hedge accounting, with the assistance of our valuation specialists, we tested the appropriateness of the valuation methodology applied in the separation of the cross-currency basis spread from a derivative. Furthermore, we have compared input data used in the separation of the cross-currency basis spread to independent sources and external available market data.– We inspected hedge documentation of the hedging relationship and evaluated that the hedge accounting policies and documentation meets the hedge effectiveness requirements.– We assessed the governance over the impairment models used, including the model documentation prepared by management and the reasonableness and frequency of overlays applied and validated that internal ratings are approved by the credit risk committee.– For impairments, we assessed, with the assistance of our specialists, that the impairment methodology and model applied by BNG Bank are in accordance with the requirements of IFRS 9. We evaluated, amongst others,
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KEY AUDIT MATTER

to apply judgment since there is no fsingle method for separating the cross-currency basis spread from a derivative, separation of the cross-currency basis spread from a derivative is a technically complex area and thus requires significant valuation expertise. The cash flow hedge reserve will decrease from € 193 million positive to € 19 million positive and the new cost of hedging line item will amount to € 22 million positive in the opening balance sheet as at 1 January 2018 based on IFRS 9.

- The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the expected credit losses. Amongst other things, this applies to the choices and judgements made in the impairment methodology, including the determination of the probability of default (‘PD’), the loss given default (‘LGD’) and the exposure at default (‘EAD’). With the introduction of IFRS 9, these calculations must also take into account forward-looking information (‘FLI’) of macro-economic factors considering multiple scenario’s. Mainly with respect to the PD and LGD used in the expected credit losses, management has applied significant judgement given the low default character of the bank’s loan portfolio. As a result there is limited internal historical data to support and back-test the PD and LGD. The estimated impact of impairments on the opening balance sheet as at 1 January 2018 based on IFRS 9 amounts to € 28 million.

HOW OUR AUDIT ADDRESSED THE MATTER

the validation procedures performed by management experts relating to the FLI model, that the impairment methodology and judgements taken by management comply with IFRS 9. We validated that multiple scenarios are taken into consideration for determining the FLI and reconciled the macro-economic factors used to external data.

- Finally we assessed the PD and LGD applied by management in the impairment calculation. In doing so, we assessed how management analysed and applied the limited internal historical default data available supplemented with limited available external datapoints such as external credit ratings.

We found no material exceptions during our testing described above. We obtained the opening balance sheet of 1 January 2018 prepared under the IFRS 9 accounting policies and tested the reconciliation with the ending balance of 31 December 2017 prepared in accordance with IAS 39 and evaluated the differences. Finally, we assessed the adequacy of the IAS 8 disclosures as to the expected impact, the status of the implementation effort to date and the extent to which the entity has evaluated the possible impact. We also evaluated that the disclosures adequately reflect the significant uncertainties that exist around the application and implementation of IFRS 9.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report 2017 contains other information that consists of:

- profile;
- selected financial data;
- foreword;
- report of the executive board;
- corporate structure;
- report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- appendices.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OUR APPOINTMENT

We were appointed on 23 April 2015 as auditor of N.V. Bank Nederlandse Gemeenten by the General Meeting following a recommendation by the Supervisory Board on 28 November 2014. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 2 years.

NO PROHIBITED NON-AUDIT SERVICES

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

SERVICES RENDERED

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 33 to the company financial statements.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 9 March 2018

PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.

Original has been signed by

R.E.H.M. VAN ADRICHEM RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2017 OF N.V. BANK NEDERLANDSE GEMEENTEN

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by executive board.
- Concluding on the appropriateness of executive board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies

in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Data-measuring technique for CSR reporting purposes

Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and the Compliance/Compliance Officer and the consumption records of Facility Management. Assumptions/estimates have been made in calculating the organisation's CO₂ footprint in the form of an estimate of the total office area and gas and electricity consumption. The number of kilometres driven by employees in their own cars for business purposes is not known. However, this is amply compensated in the conservative estimate made for the private use of leased cars. The calculation of the quantity of waste is based on the number of container emptying (volume) multiplied by the specific weight of the type of waste concerned. This calculation assumes that each container offered for emptying was 80% full. The methodologies are set out in work instructions. In terms of accuracy, BNG Bank deems the inherent limitations attached to the estimates as non-material.

BNG Bank uses 2010 as the baseline year for its CO₂ emissions – the year in which the bank began registering its emissions on an annual basis. The bank's CO₂ footprint is calculated using operational control instruments. All business units that fall within the bank's operational control are included in its CO₂ footprint. Through to 2012 BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK) and those set out in the EC IPPC (Industrial Emissions) Directive. Since BNG Bank operates solely on the Dutch market, it was decided in 2013 to no longer apply the international conversion factors. Instead we use the standard conversion factors generally accepted in the Netherlands in accordance with the CO₂ performance ladder instead, barring one exception. Green power is extrapolated as being climate-neutral (0 grams CO₂/kWh). From 2016, CO₂ emissions generated by district heating are calculated on the basis of the STEG emissions factor (36 kg/GJ). Prior to that, the calculation was based on 20 kg/GJ in accordance with the CO₂ emissions ladder. In contrast to the CO₂ performance ladder, business flights are attributed to scope 3 (in accordance with the GHG protocol).

The CSR information is audited internally and by an external party.

Assurance report of the independent auditor

**TO: THE GENERAL MEETING AND SUPERVISORY BOARD OF N.V. BANK
NEDERLANDSE GEMEENTEN**

ASSURANCE REPORT ON THE SUSTAINABILITY INFORMATION 2017

OUR OPINION

In our opinion N.V. Bank Nederlandse Gemeenten's sustainability information in the annual report presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the events and achievements related thereto for the year ended 31 December 2017, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria.

WHAT WE HAVE AUDITED

The sustainability information contains a representation of the policy and business operations of N.V. Bank Nederlandse Gemeenten, Den Haag, regarding sustainability and the events and achievements related thereto for 2017.

We have audited the sustainability information for 2017, as included in the following chapters in the annual report of N.V. Bank Nederlandse Gemeenten:

- Key figures (social and environment)
- Sustainability information included in the message of the supervisory board
- In the report of the executive board, the following sub-chapters:
 - Relationship with stakeholders
 - Strategy
 - A safe bank
 - Responsible growth
 - Social engagement
 - Committed employees
 - Sustainable operations (excluding paper consumption)

The links to external sources or websites in the sustainability information are not part of the sustainability information itself, audited by us. We do not provide assurance over information outside of the annual report.

THE BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance engagements on corporate social responsibility reports' ('Assurance-opdrachten inzake maatschappelijke verslagen'). This audit is aimed to obtain reasonable assurance. Our responsibilities under this standard are further described in the section 'Our responsibilities for the audit of the sustainability information' of this assurance report.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE AND QUALITY CONTROL

We are independent of N.V. Bank Nederlandse Gemeenten in accordance with the 'Code of Ethics for Professional Accountants, a regulation with respect to independence' ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' – ViO) and other for the engagement relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct' ('Verordening gedrags- en beroepsregels accountants' – VGBA).

We apply the 'detailed rules for quality systems' ('Nadere voorschriften kwaliteitssystemen') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

REPORTING CRITERIA

N.V. Bank Nederlandse Gemeenten developed its reporting criteria on the basis of the Sustainability Reporting Standards of GRI, as disclosed in the chapter 'Data measuring technique for CSR reporting purposes' of the annual report. The information in the scope of this assurance engagement needs to be read and understood in conjunction with the reporting criteria as disclosed in the before mentioned chapter of the annual report. The executive board is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

INHERENT LIMITATIONS

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates based on assumptions. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information included in the annual report.

RESPONSIBILITIES FOR THE SUSTAINABILITY SECTIONS AND THE ASSURANCE ENGAGEMENT

RESPONSIBILITIES OF THE EXECUTIVE BOARD

The executive board of N.V. Bank Nederlandse Gemeenten is responsible for the preparation of the sustainability information in accordance with the Sustainability Reporting Standards of GRI and the internally applied reporting criteria as disclosed in the annual report, including the

identification of stakeholders and the definition of material subjects. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are disclosed in the annual report. The executive board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The executive board is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE SUSTAINABILITY INFORMATION

Our responsibility is to plan and perform the audit engagement to obtain sufficient and appropriate assurance information to provide a basis for our opinion.

Our audit has been performed with a high, but not absolute level of assurance. This means we may not have detected all material misstatements.

Misstatements may arise due to irregularities, including fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our audit and the evaluation of the effect of identified misstatements on our opinion.

PROCEDURES PERFORMED

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main procedures include:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organization.
- Identifying and assessing the risks of material misstatement of the sustainability information, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of the reporting criteria used and its consistent application, including the evaluation of the results of the stakeholders' dialogue, and the reasonableness of estimates made by management and related disclosures in the sustainability information;
- Evaluating the overall presentation, structure and content of the sustainability information, including the disclosures;
- Evaluating whether the sustainability information represents the underlying transactions and events free from material misstatement.
- Interviewing management (or relevant staff) at corporate level responsible for the strategy, policy and performance of sustainability operations.

- Interviewing relevant staff at corporate level, responsible for providing the information in the sustainability information, carrying out internal control procedures on the data and consolidating the sustainability data in the annual report.
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the sustainability information in the annual report;
- Assessing the consistency of the Sustainability Information and the information in the annual report not in scope for this assurance report;
- Assessing whether the sustainability information has been prepared ‘in accordance’ with GRI Standards – Comprehensive.

Amsterdam, 9 March 2018

PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.

R.E.H.M. VAN ADRICHEM RA

Stipulations of the articles of association concerning profit appropriation

Article 23 of the Articles of Association relating to the distribution of the profit includes the following provisions:

1. Profit may be distributed only after the General Meeting of Shareholders has adopted the financial statements from which it appears that such distribution is permitted.
2. The company may make payments to the shareholders from the profits available for distribution only insofar as its equity capital exceeds the amount of the paid-up part of the capital plus the statutory reserves.
3. First of all, if possible, an amount of ten per cent (10%) of the profit of the financial year available for distribution as evidenced by the financial statements shall be added to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.
4. The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholding, insofar as the General Meeting of Shareholders does not allocate this amount to the reserves.
5. The company is empowered to make interim profit distributions, subject to the provisions of Section 105, sub 4, of Book 2 of the Dutch Civil Code.

Objectives as defined in the articles of association

Article 2 of the Articles of Association contains the following provisions:

1. The objective of the company shall be to conduct the business of banker on behalf of public authorities.
2. In the context of its objective as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending funds, granting loans in other ways, providing guarantees, executing payments, conducting foreign exchange transactions, acting as adviser and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose objectives are connected with or conducive to any of the foregoing. The company shall be authorised to perform all acts which may be directly or indirectly conducive to its objective.
3. The term public authorities as referred to in paragraph 1 means:
 - a. municipalities and other legal persons in the Netherlands under public law as referred to in Section 1(1) and (2) of Book 2 of the Dutch Civil Code;
 - b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;
 - c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;
 - d. legal persons under private law:
 - half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to at a, b and c of this paragraph;and/or
 - half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to at a, b and c;and/or
 - half or more of the income side of whose operating budget is provided or secured directly or indirectly by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;and/or
 - whose operating budget is determined or approved directly or indirectly by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;and/or

- whose obligations toward the company are guaranteed directly or indirectly by one or more of the bodies referred to at a, b and c or will be so guaranteed on the basis of a scheme, bye-law or law adopted by one or more of such bodies, which obligations are understood to include non-guaranteed obligations from pre-financing or otherwise which, following novation, will give rise to obligations that are to be guaranteed by one or more of such bodies on the basis of a scheme, bye-law or law adopted by one or more of such bodies;

and/or

- which perform a part of the government's tasks on the basis of a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c.

Appendices

A	BNG Bank subsidiaries	195
B	BNG Bank shareholders as at 31/12/2017	196

A BNG Bank subsidiaries

BNG GEBIEDSONTWIKKELING BV 100%

Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD

G.C.A. RODEWIJK

P.O. Box 16075
2500 BB The Hague
Telephone +31 70 3119 900
info@bnggo.nl

Objective:

To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.

HYPOTHEEKFONDS VOOR OVERHEIDSPERSONEEL BV (HVO) 100%

Koninginnegracht 2
2514 AA The Hague

MANAGEMENT BOARD

A.M. VAN OORD

T. WESSELING

P.O. Box 30305
2500 GH The Hague
Telephone +31 70 3750 619
bms@bngbank.nl

Objective:

The financing of mortgage loans taken out by civil servants in the employ of an affiliated public or semi-public institution with which a cooperation agreement has been reached.

B BNG Bank shareholders as at 31/12/2017

The total number of shares is 55,690,720.

Aa en Hunze	52,728	Bergen (N.H.)	149,994
Aalburg	17,550	Bergen op Zoom	41,067
Aalsmeer	25,857	Berkelland	305,877
Aalten	19,305	Bernheze	21,060
Achtkarspelen	87,711	Best	24,570
Alblasserdam	9,477	Beuningen	14,040
Albrandswaard	3,510	Beverwijk	85,605
Alkmaar	189,930	Binnenmaas	105,495
Almelo	174,525	Bladel	62,790
Almere	3,432	Blaricum	5,967
Alphen aan den Rijn	256,854	Bloemendaal	21,060
Ameland	3,120	Bodegraven-Reeuwijk	76,830
Amersfoort	272,220	Borger-Odoorn	80,340
Amstelveen	143,520	Borne	107,172
Amsterdam	617,058	Borsele	39,273
Apeldoorn	132,093	Boxmeer	38,660
Appingedam	23,751	Boxtel	53,385
Arnhem	496,470	Breda	257,439
Assen	85,301	Brielle	24,414
Asten	13,000	Bronckhorst	72,384
		Brummen	702
Baarle-Nassau	3,510	Brunssum	86,658
Baarn	46,800	Bunnik	3,000
Barendrecht	32,097	Buren	23,953
Barneveld	24,570		
Bedum	5,265	Capelle aan den IJssel	7,722
Beek (L)	11,544	Castricum	40,872
Beemster	7,020	Coevorden	94,926
Beesel	66,300	Cranendonck	5,000
Bellingwedde	12,597	Cromstrijen	7,020
Berg en Dal	103,116	Cuijk	32,253
Bergeijk	80,886	Culemborg	8,775
Bergen (L)	10,530		

Dalfsen	33,735	Geertruidenberg	133,653
Dantumadiel	12,285	Gelderland (province)	87,750
De Bilt	218,673	Geldermalsen	28,665
De Friese Meren	108,436	Geldrop-Mierlo	30,186
De Marne	10,530	Gemert-Bakel	45,474
De Ronde Venen	37,323	Gennep	10,530
De Wolden	31,122	Giessenlanden	25,935
Delft	47,385	Gilze en Rijen	10,179
Delfzijl	39,156	Goeree-Overflakkee	72,501
Den Haag	1,275,456	Goes	96,369
Den Helder	211,731	Goirle	12,636
Deurne	99,840	Gooise Meren	100,698
Deventer	292,313	Gorinchem	96,330
Diemen	8,775	Gouda	82,446
Dinkelland	16,934	Groningen (municipality)	329,199
Doesburg	27,612	Groningen (province)	75,250
Doetinchem	62,634	Grootevast	9,750
Dongen	23,510	Gulpen-Wittern	26,040
Dongeradeel	76,323		
Dordrecht	233,142	Haaksbergen	35,958
Drechterland	15,756	Haaren	11,278
Drenthe (province)	87,750	Haarlem	230,295
Drimmelen	36,426	Haarlemmerliede en Spaarnwoude	62,790
Druten	9,477	Haarlemmermeer	60,372
Duiven	3,510	Halderberge	43,524
		Hardenberg	64,935
Echt-Susteren	21,411	Harderwijk	58,968
Edam-Volendam	41,730	Hardinxveld-Giessendam	31,356
Ede	108,420	Haren	9,126
Eemsmond	21,060	Harlingen	31,200
Eersel	121,021	Hattern	30,030
Eijsden-Margraten	52,455	Heemskerk	7,722
Eindhoven	171,600	Heemstede	122,421
Elburg	76,830	Heerde	9,126
Emmen	58,266	Heerenveen	65,267
Enkhuizen	130,650	Heerhugowaard	9,789
Enschede	200,343	Heerlen	424,827
Epe	60,879	Heeze-Leende	10,020
Ermelo	75,075	Heiloo	36,000
Etten-Leur	9,828	Hellendoorn	24,180
		Hellevoetsluis	6,240
Ferwerderadiel	5,967	Helmond	52,650
Flevoland (province)	75,250	Hendrik Ido Ambacht	25,818
Franekeradeel	34,554	Hengelo (O)	174,486
Friesland (province)	75,250	's-Hertogenbosch	146,188
		Het Bildt	73,905

Heumen	151,515	Lingewaard	19,305
Heusden	44,499	Lisse	18,252
Hillegom	49,686	Littenseradiel	8,736
Hilvarenbeek	23,510	Lochem	60,138
Hilversum	120,939	Loon op Zand	41,886
Hof van Twente	157,326	Lopik	26,442
Hollands Kroon	60,294	Loppersum	24,102
Hoogeveen	17,550	Losser	17,550
Hoogezand-Sappemeer	31,161		
Hoogheemraadschap Hollands Noorderkwartier	17,355	Maasdriel	20,770
Hoorn	46,098	Maasgouw	72,150
Horst aan de Maas	113,108	Maassluis	61,035
Houten	6,240	Maastricht	347,334
Huizen	85,956	Marum	7,020
Hulst	17,472	Medemblik	13,650
		Meerssen	13,689
IJsselstein	4,563	Meerijstad	120,237
		Menameradiel	24,375
Kaag en Braassem	121,719	Menterwolde	38,688
Kampen	100,893	Meppel	18,915
Kapelle	53,040	Middelburg	49,296
Katwijk	144,066	Midden-Delfland	48,594
Kerkrade	183,300	Midden-Drenthe	60,138
Koggenland	29,016	Mill en St. Hubert	5,265
Kollumerland en Nieuwkruisland	22,347	Moerdijk	27,027
Korendijk	29,718	Molenwaard	35,022
Krimpen aan den IJssel	32,799	Montferland	19,756
Krimpenerwaard	50,700	Montfoort	12,480
		Mook en Middelaar	123,708
Laarbeek	20,709	Neder-Betuwe	18,246
Landerd	29,094	Nederweert	14,040
Landgraaf	41,301	Neerijnen	14,040
Landsmeer	24,453	Nieuwegein	80,184
Langedijk	6,318	Nieuwkoop	36,348
Lansingerland	15,015	Nijkerk	32,370
Leek	28,041	Nijmegen	193,479
Leerdam	17,550	Nissewaard	20,280
Leeuwarden	133,044	Noord-Beveland	6,520
Leeuwarderadeel	72,150	Noord-Brabant (province)	40,000
Leiden	347,646	Noordenveld	30,771
Leiderdorp	97,968	Noord-Holland (province)	610,350
Leidschendam-Voorburg	203,190	Noordoostpolder	19,656
Lelystad	5,000	Noordwijk	12,636
Leudal	143,052	Noordwijkerhout	8,775
Limburg (province)	156,000	Nuenen, Gerwen en Nederwetten	1,755
Lingewaal	17,550		

Nunspeet	75,075	Rotterdam	321,555
Nuth	11,232	Rucphen	19,656
Oegstgeest	46,059	Schagen	55,497
Oirschot	8,775	Scherpenzeel	3,510
Oisterwijk	7,845	Schiedam	326,352
Oldambt	181,116	Schiermonnikoog	7,020
Oldebroek	9,750	Schinnen	7,020
Oldenzaal	17,550	Schouwen-Duiveland	23,790
Olst-Wijhe	18,252	Simpelveld	6,630
Ommen	79,638	Sint-Anthonis	12,285
Onderbanken	8,775	Sint-Michielsgestel	21,060
Oost Gelre	51,363	Sittard-Geleen	175,266
Oosterhout	35,100	Sliedrecht	31,200
Ooststellingwerf	18,720	Slochteren	20,124
Oostzaan	24,765	Sluis	10,140
Opmeer	19,188	Smallingerland	110,292
Opsterland	66,651	Soest	123,825
Oss	64,646	Someren	15,444
Oud-Beijerland	5,265	Son en Breugel	29,991
Oude IJsselstreek	161,460	Staat der Nederlanden	27,845,360
Ouder-Amstel	4,914	Stadskanaal	27,339
Oudewater	27,612	Staphorst	30,030
Overbetuwe	21,762	Stede Broec	17,823
Overijssel (province)	87,750	Steenbergen	11,583
Papendrecht	6,318	Steenwijkerland	129,675
Peel en Maas	63,687	Stein	19,266
Pekela	26,130	Stichtse Vecht	29,523
Pijnacker-Nootdorp	57,564	Strijen	6,240
Purmerend	7,020	Súdwest Fryslân	317,058
Putten	10,530	Ten Boer	3,510
Raalte	25,987	Terneuzen	45,474
Reimerswaal	15,990	Terschelling	3,510
Renkum	89,739	Texel	7,371
Reusel-De Mierden	10,530	Teylingen	57,681
Rheden	186,966	Tholen	33,696
Rhenen	61,035	Tiel	36,803
Ridderkerk	89,115	Tilburg	71,786
Rijnwaarden	4,914	Tubbergen	30,000
Rijssen-Holten	304,746	Twenterand	23,868
Rijswijk (Z.H.)	165,945	Tynaarlo	43,243
Roerdalen	17,199	Tytsjerksteradiel	48,945
Roermond	34,749	Uden	17,550
Roosendaal	56,862	Uitgeest	3,510

Uithoorn	54,522	Woensdrecht	11,232
Urk	3,861	Woerden	123,201
Utrecht (municipality)	763,074	Wormerland	36,660
Utrecht (province)	87,750	Woudenberg	3,510
Utrechtse Heuvelrug	201,669	Woudrichem	10,530
Vaals	17,121	Zaanstad	416,286
Valkenburg aan de Geul	21,060	Zaltbommel	3,861
Valkenswaard	12,987	Zandvoort	56,862
Veendam	86,190	Zederik	43,017
Veenendaal	86,970	Zeewolde	78
Veere	7,020	Zeist	192,075
Veldhoven	35,100	Zevenaar	8,020
Velsen	280,410	Zoetermeer	3,510
Venlo	106,026	Zoeterwoude	26,871
Venray	54,202	Zuid-Holland (province)	610,350
Vianen	22,698	Zuidhorn	10,140
Vlaardingen	198,198	Zuidplas	54,328
Vlagtwedde	16,458	Zundert	104,949
Vlieland	3,510	Zutphen	95,940
Vlissingen	70,356	Zwartewaterland	23,712
Voerendaal	11,232	Zwijndrecht	47,541
Voorschoten	41,184	Zwolle	149,097
Voorst	112,983		
Vught	15,795		
Waalre	6,318		
Waalwijk	29,133		
Waddinxveen	17,823		
Wageningen	50,310		
Wassenaar	106,392		
Waterland	14,040		
Weert	41,379		
Weesp	33,501		
Werkendam	9,828		
Westerveld	51,987		
Westervoort	3,510		
Westland	301,860		
Weststellingwerf	58,071		
Westvoorne	66,963		
Wierden	21,060		
Wijchen	11,193		
Wijdmeren	33,930		
Wijk bij Duurstede	23,751		
Winsum	10,140		
Winterswijk	17,199		

COLOPHON

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