Interim report

BNG Bank 2016

BANK

This is an unofficial translation of the Dutch 2016 Interim Report which is provided for convenience purposes only.

In the event of any ambiguity, the Dutch text will prevail.

BANK

Contents

Profile

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

BNG Bank's mission has been translated into the following strategic objectives: substantial market shares in the funding of the Dutch public sector and the semi-public domain and a reasonable return for its shareholders. An excellent credit rating and effective risk management, an excellent funding position as well as managing the bank's business as effectively and efficiently as possible are necessary prerequisites in this endeavour. Corporate Social Responsibility is intrinsic to BNG Bank's core activities.

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

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

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

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

Report of the Executive Board

In the first half of 2016, BNG Bank posted a net profit of EUR 126 million, down EUR 29 million on the first half of 2015. This decrease was caused primarily by the continuing downward trend in long-term interest rates, which has a negative effect on the interest result and the unrealised market value adjustments in the result on financial transactions. Quantitative easing resulting from the European Central Bank's purchase programme and the outcome of the UK referendum on leaving the European Union were major causes of the further fall in interest rates in the first half of 2016.

New long-term lending in the first half of 2016 amounted to EUR 4.7 billion. Apart from the housing association sector, turnover in the client sectors of the bank was in line with expectations. As a result of the implementation of various elements of the 'Revised Housing Act', housing associations remain more hesitant than anticipated about investing. The bank's market share in the core client sectors in the period under review was once again significantly above target, in spite of marginally increased competition. Pension funds and, to a lesser degree, insurers occasionally operate in the bank's market sectors. Relative to year-end 2015, the long-term loan portfolio declined by EUR 0.5 billion to EUR 81.9 billion. This decrease was mainly attributable to lower long-term lending in the housing association sector.

The **long-term loan portfolio declined** by EUR 0.5 billion **to EUR 81.9 billion**. This decrease was mainly attributable to **lower long-term lending** in the **housing association sector**.

BNG Bank raised a total of EUR 12.6 billion (2015: EUR 8.9 billion) in long-term funding in the period under review, inter alia by issuing six benchmark loans (in euros and US dollars) ranging in size from 1 to 2.5 billion. This provided for approximately 70% of the anticipated long-term funding requirement in 2016. The prevailing market conditions enabled BNG Bank to raise funding on favourable terms. In terms of raising short-term funding, the bank benefitted from renewed risk aversion in the market and the subsequent 'flight towards quality'. In the run-up to the referendum in the United Kingdom, parties increasingly sought the safety offered by BNG Bank's balance sheet for investing their temporary liquidity surpluses.

BNG Bank raised a total of **EUR 12.6 billion** (2015: EUR 8.9 billion) in **long-term funding**; approximately **70%** of the **anticipated** long-term funding requirement in 2016.

In line with expectations, the interest result for the first half year was down by EUR 17 million on the same period in 2015, to EUR 191 million. This decrease is a result of persistently low long-term interest rates and the bank's cautious interest-rate position. As a consequence, the bank's equity generates increasingly low returns. Negative interest rates additionally have the effect of pushing down the interest rate margin.

The result on financial transactions was EUR 28 million negative in the period under review (first half of 2015: EUR 82 million positive). The negative unrealised market value adjustments were largely due to the increased credit and liquidity risk spreads of a portfolio of long-term, inflation-linked British bonds held by BNG Bank which are directly or indirectly guaranteed by the UK central government. The impact of the proposed Brexit on the valuation of this portfolio has otherwise been limited. In addition, the total so-called Credit Valuation Adjustments, a measure of the extent of the credit risk in derivatives, was negatively affected by the fall in long-term interest rates. This was offset by positive results of EUR 20 million achieved on settlements of funding transactions initiated by counterparties. At the same time, positive results totalling EUR 31 million were achieved on the sale of interest-bearing securities from the item Financial assets available-for-sale. This largely relates to changes in the bank's liquidity portfolio.

In late April, the AFM approved the sale of BNG Vermogensbeheer BV to ASR Nederland NV. The transfer, which is retroactively effective to 1 January 2016, was subsequently completed in May. The sale of the shares of BNG Vermogensbeheer and the sale of participating interests in an investment fund yielded a total positive result of EUR 34 million. The sales result consists mainly of the release of the difference between the fair value and cost price of the participating interests from the revaluation reserve to the income statement.

Normal consolidated operating expenses decreased by EUR 1 million to EUR 31 million compared with the same period in 2015. This decline was caused by the removal of the operating expenses of BNG Vermogensbeheer. The bank's expenses for information technology and the costs of hiring external staff continue to rise. Significant efforts are needed to enable the bank to continue to comply with rapidly evolving laws and regulations and the resulting extensive reporting requirements.

The bank's contribution to the European resolution fund was set at EUR 16 million in late April 2016. The increase of EUR 7 million relative to the contribution in 2015 was caused by the increase in the balance sheet total in 2014 compared with the balance sheet total at year-end 2013. The contribution also remained relatively limited in 2016 because the bulk of the outstanding loans of BNG Bank qualify as so-called promotional loans. When setting the annual contribution these may be disregarded for the purpose of determining the contribution basis.

Impairments totalling EUR 2 million were recognised in the income statement in the first half of 2016 (first half of 2015: EUR 68 million). This relates principally to partial write-downs on participating interests of BNG Gebiedsontwikkeling. In the first quarter, the creditors turned down a proposal to buy out the claims against HETA (formerly Hypo Adria Bank) guaranteed by the federal state of Carinthia for around 80% of the original principal amount. In May a new and higher bid was announced corresponding to, on balance, 90% of

The bank's **expenses** for information technology and the costs of hiring external staff continue to **rise** in order to comply with **rapidly evolving laws and regulations** and the resulting extensive **reporting requirements**.

the original principal amount. BNG Bank is in the process of examining the proposal and is preparing for decision-making. The going rate of the bonds held by the bank was roughly 86% as at the end of June 2016, which is significantly higher than the going rate as at the end of March 2015 (58%) on the basis of which the impairment was set in the first half of 2015.

The **balance sheet total increased** by **EUR 14.0 billion** to nearly **EUR 163.5 billion**.

Relative to year-end 2015, the balance sheet total increased by EUR 14.0 billion to nearly EUR 163.5 billion. The Loans and advances item in the period under review decreased by approximately EUR 0.6 billion to EUR 88.8 billion. Falling long-term interest rates have the effect of pushing up the absolute value of derivative transactions. The valuation of these transactions and the related collateral obligations to a large extent determine the increase in the balance sheet items Amounts due from banks (assets) and Derivatives (liabilities). The items Debt securities and Value adjustments on loans in portfolio hedge accounting have also increased as a result of the falling long-term interest rates. The item Debt securities also increased due to the balance of long-term and short-term funding raised and repaid during the period under review.

The bank's equity fell by almost EUR 0.3 billion to EUR 3.9 billion in the reporting period. The extension of the USD/EUR cross-currency basis spread, the liquidity spread for the exchange of currency via swaps, is the primary cause of this decrease and is reflected in the decrease in the cash flow hedge reserve.

BNG Bank's risk-weighted solvency increased further during the reporting period. The Common Equity Tier 1 ratio and the bank's Tier 1 ratio rose to 25.9% and 29.3%, respectively. This rise is mainly the result of the addition of the retained profit for 2015 to the general reserve and the fact that 60% of the (positive) revaluation reserve qualifies as capital in 2016, while this was still 40% in 2015. The bank's leverage ratio remained unchanged relative to year-end 2015 at 2.6%. The increase in the Tier 1 capital is offset by the significant increase in the balance sheet total. If the revaluation reserve and the profit for the reporting period, reduced by the dividend available for distribution, were included in full, the leverage ratio at mid-year 2016 would be 2.8%. BNG Bank has set itself the goal of achieving a leverage ratio at year-end 2016, determined in this latter manner, of at least 3.0%.

As part of its efforts for a higher leverage ratio, BNG Bank has entered into discussions with a number of local authorities regarding subsequent issues of hybrid capital. Based on these discussions, the bank expects to be able to issue additional Tier 1 capital in the second half of 2016. The issues are dependent inter alia on market conditions and the processing time of the approval process by the local authorities concerned.

BNG Bank expects the total amount of new long-term lending to be slightly lower for 2016 than in the previous year. As a result of the new regulations, the bank's clients are expected to remain hesitant about investing, in spite of interest rate levels which make it attractive to invest.

Despite the high creditworthiness of the bank's exposures, it is not possible to rule out the possibility of a few debtors being unable to meet their payment obligations. Therefore, an addition to the debt provision or an additional impairment may also be required in the further course of 2016.

The anticipated long-term funding requirement in 2016 amounts to approximately EUR 18 billion. The bank's policy is geared to achieving diversification in terms of product, currency and term. In early July 2016, a third 'Socially Responsible Investment' bond was issued. This bond is intended to provide funding to the most sustainable housing associations. This 'social housing bond' enables BNG Bank to promote sustainability among its clients in the housing association sector and allows it to respond to growing worldwide demand for these types of investments.

In the coming years, the bank's cost level will rise further, principally as a result of the large number of new regulations that need to be implemented in its systems and processes. Consolidated operating expenses are expected to amount to EUR 69 million in 2016. In the fourth quarter, the bank will have to pay EUR 35 million in bank levy.

By issuing a third 'Socially Responsible Investment' bond, BNG Bank **promotes sustainability** among its clients in the **housing association sector** and responds to **growing** worldwide **demand** for these types of **investments**.

The interest result for 2016 is expected to lie within a bandwidth of EUR 380 to EUR 400 million. The current uncertain market circumstances have adversely affected the result on financial transactions. In view of the persisting uncertainties, the bank does not consider it wise to make a statement regarding the expected net profit for 2016.

Declaration of responsibility

In the opinion of the Executive Board, the Interim Report provides a true and fair view of the assets, liabilities, the financial position and the results of BNG Bank and the subsidiaries included in the consolidation at 30 June 2016. The Interim Report provides a true and fair view of the position on the balance sheet date, performance during the first half year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated Interim Report. The Interim Report also describes the material risks facing BNG Bank. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2015 Annual Report.

The Hague, 26 August 2016

Executive Board,

C. VAN EYKELENBURG
CHAIR

O.J. LABE

J.C. REICHARDT

Consolidated interim financial statements

As regards all the financial statements and the selected notes in this Interim Report, an unqualified audit opinion has been issued for the figures as at 31 December 2015 and for the 2015 financial year as a whole. A review report has been issued for the figures as at 30 June 2016 and for the first half of 2016.

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/6/2016	31/12/2015
ASSETS		
Cash and balances held with the central banks	4,290	3,175
Amounts due from banks	16,333	10,540
Financial assets at fair value through the income statement	3,012	2,884
Derivatives	17,581	16,370
Financial assets available-for-sale	14,134	13,459
Loans and advances	88,795	89,366
Value adjustments on loans in portfolio hedge accounting	19,131	13,559
Associates and joint ventures	44	47
Property and equipment	16	16
Other assets	120	27
Assets held for sale	–	68
TOTAL ASSETS	**163,456**	**149,511**

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CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/6/2016	31/12/2015
LIABILITIES		
Amounts due to banks	3,440	2,968
Financial liabilities at fair value through the income statement	1,287	1,788
Derivatives	30,773	23,261
Debt securities [1]	117,093	110,123
Funds entrusted	6,762	6,869
Subordinated debts	31	31
Other liabilities	165	308
TOTAL LIABILITIES	**159,551**	**145,348**
Capital	139	139
Share premium reserve	6	6
Hybrid capital	424	424
Revaluation reserve	318	320
Cash flow hedge reserve	–70	251
Other reserves	2,962	2,797
Unappropriated profit	126	226
EQUITY	**3,905**	**4,163**
TOTAL LIABILITIES AND EQUITY	**163,456**	**149,511**

The numbers refer to the selected notes to the consolidated 2016 Interim Report.

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016		FIRST HALF OF 2015	
– Interest income	290		536	
– Interest expenses	99		328	
Interest result		191		208
– Commission income	17		16	
– Commission expenses	2		2	
Commission result		15		14
Result on financial transactions [2]		–28		82
Results from associates and joint ventures		2		1
Result from sale of assets held for sale [3]		34		–
Other results		1		1
TOTAL INCOME		**215**		**306**

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The numbers refer to the selected notes to the consolidated 2016 Interim Report.

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CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016	FIRST HALF OF 2015
Staff costs	18	19
Other administrative expenses	12	12
Depreciation	1	1
TOTAL OPERATING EXPENSES	**31**	**32**
Impairments[4]	2	68
Contribution to resolution fund	16	–
TOTAL OTHER EXPENSES	**18**	**68**
PROFIT BEFORE TAX	**166**	**206**
Taxes	−40	−51
NET PROFIT	**126**	**155**

The net profit is fully attributable to the bank's shareholders.
The numbers refer to the selected notes to the consolidated 2016 Interim Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	FIRST HALF OF 2016			FIRST HALF OF 2015		
NET PROFIT			**126**			**155**
Recyclable results recognised directly in equity:						
− Changes in cash flow hedge reserve (after taxation)						
− unrealised value changes	−321			−65		
− realised value changes transferred to the income statement	0			0		
		−321			−65	
− Changes in the revaluation reserve for financial assets available-for-sale (after taxation):						
− unrealised value changes	58			21		
− impairments transferred to the income statement	0			63		
− realised value changes transferred to the income statement	−60			−10		
		−2			74	
		−323			9	
Non-recyclable results recognised directly in equity (after taxation):						
− Movement in actuarial result		0			0	
RESULTS RECOGNISED DIRECTLY IN EQUITY			**−323**			**9**
TOTAL			**−197**			**164**

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016	FIRST HALF OF 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	166	206
Adjustments for:		
− Depreciation	1	1
− Impairments	2	68
− Unrealised results through the income statement	80	−50
Changes in operating assets and liabilities:		
− Changes in amounts due from and due to banks (not due on demand)	−5,431	3,038
− Changes in loans and advances	316	−452
− Changes in funds entrusted	−182	−376
− Changes in derivatives	281	2,888
− Corporate income tax paid or received	−83	5
− Other changes from operating activities	−160	39
NET CASH FLOW FROM OPERATING ACTIVITIES	**−5,010**	**5,367**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016	FIRST HALF OF 2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments and acquisitions pertaining to:		
− Financial assets at fair value through the income statement	–	–
− Financial assets available-for-sale	−748	−95
− Associates and joint ventures	–	−2
− Property and equipment	−1	−1
Disposals and redemptions pertaining to:		
− Financial assets at fair value through the income statement	20	25
− Financial assets available-for-sale	697	129
− Associates and joint ventures	1	–
− Property and equipment	–	–
− Assets held for sale	77	–
NET CASH FLOW FROM INVESTING ACTIVITIES	**46**	**56**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016	FIRST HALF OF 2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts received on account of:		
− Financial liabilities at fair value through the income statement	–	3
− Debt securities	75,859	37,964
Amounts paid on account of:		
− Financial liabilities at fair value through the income statement	−516	−136
− Debt securities	−69,204	−40,166
− Subordinated debts	0	0
− Hybrid capital	−8	–
− Dividend	−57	−32
NET CASH FLOW FROM FINANCING ACTIVITIES	**6,074**	**−2,367**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2016	FIRST HALF OF 2015
NET CHANGE IN CASH AND CASH EQUIVALENTS	**1,110**	**3,056**
Cash and cash equivalents as at 1 January	3,176	2,240
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	**4,286**	**5,296**
Cash and cash equivalents as at 30 June comprise:		
− Cash and balances held with the central banks	4,290	5,295
− Cash equivalents in the Amounts due from banks item	1	3
− Cash equivalents in the Amounts due to banks item	−5	−2
	4,286	**5,296**
NOTES TO CASH FLOWS FROM OPERATING ACTIVITIES		
Interest income received	2,471	2,702
Interest expenses paid	−2,334	−2,473
	137	**229**

BNG Bank has not recognised any results from minority interests in the consolidated equity which attribute to third parties. The bank's total equity, excluding hybrid capital, is attributable to the shareholders. The dividend distribution on the hybrid capital, which was made for the first time in 2016, was paid to the investors concerned.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

FIRST HALF OF 2016	CAPITAL	SHARE PREMIUM RESERVE	HYBRID CAPITAL	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
BALANCE AS AT 1/1/2016	**139**	**6**	**424**	**320**	**251**	**2,797**	**226**	**4,163**
Net profit							126	126
Unrealised results				−2	−321			−323
Dividend payment						−61		−61
Appropriation from previous year's profit						226	−226	–
BALANCE AS AT 30/6/2016	**139**	**6**	**424**	**318**	**−70**	**2,962**	**126**	**3,905**

FIRST HALF OF 2015	CAPITAL	SHARE PREMIUM RESERVE	HYBRID CAPITAL	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
BALANCE AS AT 1/1/2015	**139**	**6**	**–**	**234**	**375**	**2,702**	**126**	**3,582**
Net profit							155	155
Unrealised results				74	−65			9
Dividend payment						−31		−31
Appropriation from previous year's profit						126	−126	–
BALANCE AS AT 30/6/2015	**139**	**6**	**–**	**308**	**310**	**2,797**	**155**	**3,715**

Selected notes to the consolidated 2016 interim report

GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared and issued for publication by the Executive Board on 26 August 2016. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank is established in The Hague, the Netherlands, and has no branch offices.

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

The consolidated 2016 Interim Report was prepared on the basis of the going-concern principle. This Interim Report comprises the interim figures of the parent company and all the subsidiaries over which BNG Bank has control. The Interim Reports of the parent company and its subsidiaries which are used to prepare the consolidated Interim Report are drawn up on the same reporting date, and are based on uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated Interim Report. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. BNG Bank's consolidated interim figures were prepared in accordance with the accounting principles and computation methods applied to the 2015 financial statements, with the exception of new or amended IFRS standards and interpretations, as adopted by the European Union and taking effect from 2016, and changes in disclosure described below. These figures are presented in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2015 Annual Report. In preparing the consolidated 2016

Interim Report the same system was applied to significant estimates and methods as that for the consolidated annual financial statements. All amounts stated in the Interim Report are presented in millions of euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank. Income is recognised if it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses.

PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the consolidated 2016 Interim Report are identical to the figures stated in the 2015 financial statements, except for changes in presentation stated below. The following changes in presentation have been applied relative to the 2015 financial statements:

- In the Interim Report, value adjustments on loans and advances involved in portfolio hedge accounting to cover the interest rate risk have been moved to the new (separate) balance sheet item Value adjustments on loans in portfolio hedge accounting. These value adjustments were accounted for in the 2015 financial statements under the item Other financial assets.
- In the Interim Report, a new item Derivatives has been recognised on both the asset side and the liability side of the balance sheet. The positive and negative replacement values, respectively, of derivative transactions are reported under these items. This concerns derivatives involved in a hedge accounting relationship as well as derivatives not involved in a hedge accounting relationship. In the 2015 financial statements, the derivatives involved in a hedge accounting relationship were reported under the balance sheet items Other financial assets and Other financial liabilities. The derivatives not involved in a hedge accounting relationship were reported in the 2015 financial statements under the balance sheet items Financial assets at fair value through the income statement and Financial liabilities at fair value through the income statement.

Due to these changes, the following values have been moved in the comparative figures for year-end 2015:

- EUR 13,559 million in value adjustments on loans and advances involved in portfolio hedge accounting to cover the interest rate risk from the item Other financial assets to the item Value adjustments on loans in portfolio hedge accounting;

- EUR 831 million in derivatives not involved in a hedge accounting relationship from the item Financial assets at fair value through the income statement to the asset item Derivatives;
- EUR 15,539 million in derivatives involved in a hedge accounting relationship from the item Other financial assets to the asset item Derivatives;
- EUR 1,417 million in derivatives not involved in a hedge accounting relationship from the item Financial liabilities at fair value through the income statement to the liability item Derivatives;
- EUR 21,844 million in derivatives involved in a hedge accounting relationship from the item Other financial liabilities to the liability item Derivatives.

APPLICABLE LAWS AND REGULATIONS

The consolidated 2016 Interim Report was prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted throughout the European Union, and with Part 9, Book 2 of the Dutch Civil Code.

APPLIED ACCOUNTING STANDARDS ADOPTED BY THE EU EFFECTIVE 1 JANUARY 2016

BNG Bank has applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2016, to the consolidated 2016 Interim Report.

- IAS 1 Amendment Disclosure Initiative: This amendment provides further clarification of the IAS 1 requirements and affords greater flexibility in the structure of the notes. In addition, this amendment indicates how companies can apply terms such as ‘professional judgement’, ‘aggregation’ and ‘materiality’ in selecting the information to be disclosed and how to recognise it in the Interim Report and the financial statements. The implications for the disclosures in the Interim Report as well as the financial statements of BNG Bank are very limited.
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation: These amendments have no consequences for BNG Bank.
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants: These amendments do not apply to BNG Bank.
- IAS 27 Amendment Equity method in separate financial statement: This amendment allows companies to recognise investments in participating interests (subsidiaries, joint ventures and associates) in the company financial statements at cost or in accordance with the equity method as explained in IAS 28. BNG Bank applied the cost method until the end of 2015. This resulted in a difference in equity and result compared with the

consolidated financial statements. Since 1 January 2016 BNG Bank has applied the equity method in measuring participating interests. This has implications for equity and the balance sheet total of the company financial statements of the bank, thereby erasing the difference with the consolidated equity and result. The company interim figures are not disclosed in this Interim Report.

- Amendments to IFRS 11 Accounting for acquisitions of interests in joint operations: These amendments have no consequences for BNG Bank.
- Improvements to IFRSs 2012-2014 cycle: These improvements, which apply retrospectively, relate to standards IFRS 5, IFRS 7, IAS 19 and IAS 34. They have minimal implications for the equity and disclosures in BNG Bank's financial statements and Interim Report.

UNAPPLIED EU ACCOUNTING STANDARDS EFFECTIVE ON OR AFTER 1 JANUARY 2016

BNG Bank has decided against the early application of new or amended standards and interpretations issued by the IASB, the application of which is mandatory for the financial years commencing on or after 1 January 2016 and which are relevant to BNG Bank, if they have not been adopted by the EU. The early application of the following new or amended standards, interpretations and improvements relevant to BNG Bank might have led to significant adjustments in the 2016 Interim Report in respect of valuation, the determination of the result and the disclosures of the bank. If a new or amended standard, interpretation or improvement is not applicable at all or has no implications for the bank's equity, the result or the disclosures, no further disclosures have been made and only the effective date has been stated.

- 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 cash flow statement for liabilities arising from financing activities. This standard will have an impact on the disclosures made by BNG Bank.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses: These amendments take effect retrospectively on 1 January 2017 and concern deferred tax assets for unrealised losses which can be offset against future taxable profits. The bank has no offsettable losses. This standard has no impact on BNG Bank.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities Applying the Consolidation Exception: These amendments take effect retrospectively on 1 January 2016 and do not apply to BNG Bank.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of assets between an investor and its associate or joint venture: These amendments state how a share in an associate or joint venture should be measured (fair value)

if a subsidiary is deconsolidated. The 1 January 2016 effective date has been postponed. These amendments apply prospectively to BNG Bank after the effective date if the bank decides to sell part of its share in its subsidiaries.

- IFRS 9 and Amendments to IFRS 7: IFRS 9 will replace IAS 39 Financial Instruments almost entirely, apart from the macro hedge accounting section. It must be applied partly retrospectively and partly prospectively. The standard 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). Based on the final regulations, the bank expects to be able to value the majority of its assets at amortised cost under IFRS 9 as well, thus avoiding volatility in the income statement. The amendments to the hedge accounting regulations – recording hedged risk positions in the accounts – are expected to have a limited impact on the bank's results. The impairment proposal could potentially have larger implications. The incurred loss provision is expected to turn out higher because loans on which no actual losses have been incurred to date but which do pose a considerably higher risk, will count more heavily in the incurred loss provision. Moreover, contrary to the current regulations, the Financial assets available-for-sale without an individual impairment must be included in the calculation of the provision.
- IFRS 14 Regulatory Deferral Accounts: These amendments apply to first-time adopters and will take effect prospectively on 1 January 2016. This standard does not apply to BNG Bank.
- IFRS 15 Revenue from Contracts with Customers and Clarification to IFRS 15: IFRS 15 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. In April 2016, an additional standard was published in order to clarify the IFRS 15 standard. These standards will take effect on 1 January 2018. BNG bank is currently examining which types of commission received meet this new standard. The implications for BNG Bank's result, equity and the disclosures are expected to be limited.
- IFRS 16 Leases: The IASB published a new standard in January 2016. This standard replaces the IAS 17 'Leases' standard, IFRIC 4, SIC-15 and SIC-27, and takes effect prospectively on 1 January 2019. 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. This standard has limited implications for BNG Bank.

SEGMENTED INFORMATION

IFRS 8 Operating Segments stipulates that segmentation is dependent on the way in which the organisation is managed. The Executive Board does not distinguish between different segments when deciding on the deployment of resources and performance measurement. Therefore no segmented information is included in the Interim Report.

DIVIDEND

The proposed dividend of EUR 57 million for the 2015 financial year was paid out to the shareholders following the General Meeting of Shareholders held in the first half of 2016. In addition, EUR 7 million in dividend was distributed to the holders of the hybrid capital. This distribution is deductible from corporate income tax. The net impact on equity is EUR 5 million negative. BNG Bank has no plans to pay out an interim dividend on the result for the first half of 2016.

1 DEBT SECURITIES

As part of its long-term funding activities, BNG Bank issued EUR 12.6 billion in long-term debt securities in the first half of 2016 (first half of 2015: EUR 8.9 billion). The total redemption value of long-term debt securities amounted to EUR 7.6 billion in the reporting period (first half of 2015: EUR 9.4 billion). The increase of the item Debt securities by EUR 7.0 billion to EUR 117.1 billion is attributable to the fall in the long-term interest rates, the balance of raised and repaid long-term funding and the increased use of short-term funding.

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2 RESULT ON FINANCIAL TRANSACTIONS

	FIRST HALF OF 2016		FIRST HALF OF 2015	
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:				
– Interest-bearing securities	−20		−14	
– Structured loans	−8		15	
		−28		1
RESULT ON HEDGE ACCOUNTING				
– Financial assets involved in a hedge accounting relationship	6,066		−3,194	
– Financial liabilities involved in a hedge accounting relationship	−967		−2,941	
– Derivatives involved in a hedge accounting relationship	−5,069		6,146	
		30		11
Change in counterparty credit risk for derivatives (CVA/DVA)		−39		10
Realised sales and buy-out results		51		28
Other market value changes		−42		32
TOTAL		**−28**		**82**

In the period under review, the result on financial transactions was negatively affected by unrealised results, mainly arising from the increased credit and liquidity risk spreads of a limited number of interest-bearing securities recorded under Financial assets at fair value through the income statement and the further fall in the long-term interest rate, which is reflected in the increased (negative) value of the credit risk in derivative transactions and the other market value changes. This latter category also includes the movements of the USD/EUR and EUR/GBP cross-currency basis spreads in the derivatives not involved in a hedge accounting relationship, which are unfavourable for the bank's results.

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The following factors had a favourable effect on the result on financial transactions:

- the result on hedge accounting, largely attributable to recording an (even) greater effectiveness of relatively old issues in foreign currencies including derivatives involved and the extension of these transactions; and
- the realised results on the sale of interest-bearing securities; and
- other realised results on the premature termination of the bank's issues on the counterparty's initiative.

3 RESULT FROM SALE OF ASSETS HELD FOR SALE

The sale of the shares of BNG Vermogensbeheer and the bank's interest in the BNG Depositofonds was effected at the end of May 2016. The sale of the shares resulted in a loss of control in BNG Vermogensbeheer and deconsolidation took place. The shares were transferred to the purchasing party and at the same time the interest in the investment fund was transferred at fair value. All the assets and liabilities were deleted from the consolidated balance sheet and the result from this sale was recognised in the income statement. The total profit on the sale was in excess of EUR 34 million and consists mainly of the release of the difference between the fair value and cost price of the participating interests in the BNG Deposit Fund from the revaluation reserve.

4 IMPAIRMENTS

	FIRST HALF OF 2016	FIRST HALF OF 2015
Addition to the incurred loss provision for loans and advances	1	2
Release from the incurred loss provision for loans and advances	–	–4
Impairment of financial assets available-for-sale	–	63
Impairment of associates and joint ventures	2	7
Reversal of impairment of associates and joint ventures	–1	–
TOTAL	**2**	**68**

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In the first half of 2016, the bank's incurred loss provision increased fractionally and three joint ventures of BNG Gebiedsontwikkeling were impaired. Conversely, the impairment previously applied in the case of two other joint ventures of BNG Gebiedsontwikkeling was partially reversed.

BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

					30/6/2016
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
Cash and balances held with the central banks	4,290				4,290
Amounts due from banks	16,333				16,333
Financial assets at fair value through the income statement		3,012			3,012
Derivatives			17,581		17,581
Financial assets available-for-sale				14,134	14,134
Loans and advances	88,795				88,795
Value adjustments on loans in portfolio hedge accounting	19,131				19,131
TOTAL ASSETS	**128,549**	**3,012**	**17,581**	**14,134**	**163,276**

Continued on next page

Continuation of previous page					30/6/2016
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
Amounts due to banks	3,440				3,440
Financial liabilities at fair value through the income statement		1,287			1,287
Derivatives			30,773		30,773
Debt securities	117,093				117,093
Funds entrusted	6,762				6,762
Subordinated debts	31				31
TOTAL LIABILITIES	**127,326**	**1,287**	**30,773**	**–**	**159,386**

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

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

LONG-TERM FOREIGN EXPOSURE

The following tables provide an overview of long-term exposures abroad. 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.

							30/6/2016
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational organisations	250	905				1,155	1,236
Multilateral development banks	703					703	829
Belgium	35	605	132	124		896	1,141
Germany	1,323	40				1,363	1,940
Finland		690				690	850
France	357	1,041	100		76	1,574	2,057
United Kingdom	339	353	283	162	98	1,235	1,852
Italy		30	45	243	61	379	493
Austria		604			125	729	907
Portugal			88	39	206	333	316
Spain		465	401	751	163	1,780	1,862
TOTAL	**3,007**	**4,733**	**1,049**	**1,319**	**729**	**10,837**	**13,483**

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

At the end of the first half of 2016, the remaining principal amount of the non-investment grade exposure was EUR 729 million. Of this, EUR 475 million consists of interest-bearing securities (IBS). These IBSs relate to several exposures in Spain, Portugal and Italy, which have largely been reclassified to the balance sheet item Loans and advances. BNG Bank additionally has an investment in the entity HETA, guaranteed by the Austrian federal state of Carinthia. This investment was impaired in 2015. The remainder of the non-investment grade exposure (EUR 254 million) comprises a limited number of loans and advances, in particular project financing schemes in the areas of infrastructure, education, energy and healthcare in France and the United Kingdom.

The rating downgrades of Austria, Finland and the United Kingdom are the principal cause of the significant shift in exposure from the AAA rating class to the AA rating class in the first half of 2016. This shift is also reflected in the overview of investments in interest-bearing securities.

INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

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

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

							30/6/2016
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	4,557	3,819		257	46	8,679	11,153
Level I B – Covered bonds	865	265				1,130	1,228
Level II A – Covered bonds		17	25			42	42
Level II A – Government/ Supranational		60		11		71	103
Level II B – Corporates			25			25	29
Level II B – RMBS	925	5				930	943
	6,347	**4,166**	**50**	**268**	**46**	**10,877**	**13,498**
ALM PORTFOLIO							
RMBS/CMBS	45	208	203	269	123	848	780
Covered bonds			160	410		570	666
ABS	110	3	198		61	372	374
NHG	648	113	281			1,042	1,029
Other		348	456	134	245	1,183	1,771
	803	**672**	**1,298**	**813**	**429**	**4,015**	**4,620**
TOTAL	**7,150**	**4,838**	**1,348**	**1,081**	**475**	**14,892**	**18,118**

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

FORBORN EXPOSURES

Forbearance concerns credit agreements whose credit conditions have been amended in the debtor's favour as a result of the debtor's precarious financial position, so as to enable it to fulfil its obligations. BNG Bank provides loans and advances that are subject to solvency requirements as well as loans and advances not 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. This protection is not at hand in the case of loans and advances that are subject to solvency requirements.

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

	30/6/2016		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	BREAKDOWN %	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE MEASURES
LOANS AND ADVANCES NOT SUBJECT TO SOLVENCY REQUIREMENTS	**90,396**	**88%**	**20**
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
– 1 through 11	10,989	11%	91
– 12 through 13	557	1%	–
– 14 through 17	296	0%	22
– 18 through 19	58	0%	–
	11,900	**12%**	**113**
	102,236	**100%**	**133**

	31/12/2015		
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	BREAKDOWN %	EXPOSURE TO LOANS AND ADVANCES WITH FORBEARANCE MEASURES
LOANS AND ADVANCES NOT SUBJECT TO SOLVENCY REQUIREMENTS	**88,971**	**88%**	**20**
LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
– 1 through 11	11,737	12%	101
– 12 through 13	520	0%	6
– 14 through 17	313	0%	9
– 18 through 19	83	0%	0
	12,653	**12%**	**116**
	101,624	**100%**	**136**

The credit agreements for which the contractual terms have been changed as a result of the debtor's unfavourable financial position amounted to EUR 133 million at mid-year 2016 (year-end 2015: EUR 136 million). The share in the total loan portfolio is 0.1% (year-end 2015: 0.1%) and concerns 7 debtors (year-end 2015: 7 debtors).

NON-PERFORMING AND IMPAIRED EXPOSURES

Non-performing exposures are exposures:

- whose contractual conditions have been breached by the debtor (e.g. payment arrears – 'past due' – exceeding 90 days); 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
- for which an individual provision has been created.

'Past due' refers to the payment arrears commencing at the moment the debtor fails to (fully) fulfil its contractual payment obligations.

Impaired exposures are exposures that are individually impaired. Exposures included in the IBNR provision are not classified as impaired exposures.

The following tables provide insight into the total exposure in terms of loans and advances and interest-bearing securities, with an indication of which part is considered as non-performing or impaired exposure in that regard.

						30/6/2016
	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	15			338		
Financial assets at fair value through the income statement	958			2,054		
Financial assets available-for-sale				14,110	108	108
Loans and advances	87,229	108	67	1,616	17	17
TOTAL BALANCE SHEET VALUE	**88,202**	**108**	**67**	**18,118**	**125**	**125**
Contingent liabilities	90					
Irrevocable facilities	6,766					
Revocable facilities	7,178					
TOTAL EXPOSURE	**102,236**	**108**	**67**	**18,118**	**125**	**125**

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

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

	FIRST HALF OF 2016	2015
OPENING BALANCE	**127**	**115**
Non-performing exposure not requiring an individual provision	0	50
Non-performing exposure with an individual provision	0	0
Repayments on settlement of non-performing exposure	−4	−38
Shift from non-performing to performing exposure	−15	0
CLOSING BALANCE	**108**	**127**

The shift from non-performing to performing exposure in the first half of 2016 is attributable to two causes. Firstly, the exposure of one non-performing client was covered by a local government guarantee, enabling this exposure to be considered once again as performing. In addition, the rating of another client improved to such an extent that it is no longer deemed to be non-performing.

Non-performing exposure also decreased due to (regular) repayments. No new non-performing clients were recorded in the first half of 2016, resulting in the decline of the overall number of clients with non-performing exposure by 2.

PROVISIONS POLICY FOR LOANS AND ADVANCES

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

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

The individual provision only relates to loans and advances subject to solvency requirements. Loans and advances that are not subject to solvency requirements are deemed to be free of credit risk on account of guarantees, collateral or by virtue of the status of the counterparty, such as Dutch local authorities. Furthermore, the bank has a provision on portfolio level based on a so-called Incurred But Not Reported (IBNR) model. For loans and advances 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 not subject to solvency requirements due to a local authority guarantee, the model calculates a provision on the basis of a premium for operational risk.

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

	30/6/2016	31/12/2015
Less than 31 days	0	1
31 through 60 days	0	0
61 through 90 days	0	0
Over 90 days	1	1
CLOSING BALANCE	**1**	**2**

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)

BNG Bank has concluded netting and collateral agreements with counterparties for its derivative transactions. However, these agreements are not eligible for balance sheet netting. The following table shows the positions if these agreements were to meet the conditions for balance sheet netting and if the collateral agreements were taken into account.

			30/6/2016
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
Gross value of financial assets and liabilities before balance-sheet netting	17,581	30,773	–13,192
Gross value of the financial assets and liabilities to be netted	–	–	–
BALANCE-SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**17,581**	**30,773**	**–13,192**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	14,488	14,488	–
EXPOSURE BEFORE COLLATERAL	**3,093**	**16,285**	**–13,192**
Value of financial collateral that does not comply with IAS 32 for netting purposes	1,626	16,098	–14,472
NET EXPOSURE	**1,467**	**187**	**1,280**

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE HIERARCHY

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

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

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

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

With regard to interest rate swaps whereby the bank does not have an agreement with clients subject to solvency requirements for the daily exchange of collateral, as of 2012 a Credit Valuation Adjustment (CVA) for the counterparty's credit risk is applied in the calculation of the fair value. As a consequence of the changed market practice, several improvements were implemented in 2014. In determining the fair value of derivative transactions, the CVA is applied to all derivative transactions with all clients and financial counterparties with which the bank does not have an agreement for the daily exchange of collateral. The CVA is also applied, in determining the fair value, to all derivative transactions with clients or counterparties with which the bank has an agreement for the daily exchange of collateral which is not regarded as sufficiently strong. The bank also applies adjustments to its own credit risk, the Debit Valuation Adjustment (DVA), in the fair value of derivative transactions with clients and financial counterparties with which the bank does not have an agreement, or no sufficiently strong agreement, for the daily exchange of collateral.

The bank has set the spread over swap curve for its own credit risk, the Own Credit Adjustment (OCA), for instruments recognised under Financial liabilities at fair value through the income statement, consistently at zero on the basis of its credit rating.

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 only applies recurring fair values that are measured on an ongoing basis for processing in the financial position at the end of each reporting period.

	30/6/2016		31/12/2015	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances held with the central banks	4,290	4,290	3,175	3,175
Amounts due from banks	16,333	16,340	10,540	10,551
Financial assets at fair value through the income statement	3,012	3,012	2,884	2,884
Derivatives	17,581	17,581	16,370	16,370
Financial assets available-for-sale	14,134	14,134	13,459	13,459
Loans and advances	88,795	108,518	89,366	103,800
TOTAL FINANCIAL ASSETS	**144,145**	**163,875**	**135,794**	**150,239**
Amounts due to banks	3,440	3,439	2,968	2,968
Financial liabilities at fair value through the income statement	1,287	1,287	1,788	1,788
Derivatives	30,773	30,773	23,261	23,261
Debt securities	117,093	117,331	110,123	110,012
Funds entrusted	6,762	7,074	6,869	7,152
Subordinated debts	31	49	31	47
TOTAL FINANCIAL LIABILITIES	**159,386**	**159,953**	**145,040**	**145,228**

The hierarchical classification is determined upon conclusion of a transaction, 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 correct classification. The classification in one of the three levels is to take place on the basis of the lowest input level that is significant for the fair value of 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. This classification according to hierarchy is evaluated every quarter for each transaction, and changes are made where necessary.

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

				30/6/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	341	2,051	620	3,012
Derivatives	–	17,560	21	17,581
Financial assets available-for-sale	12,011	2,099	24	14,134
TOTAL FINANCIAL ASSETS	**12,352**	**21,710**	**665**	**34,727**
Financial liabilities at fair value through the income statement	–	1,287	–	1,287
Derivatives	–	30,743	30	30,773
TOTAL FINANCIAL LIABILITIES	**–**	**32,030**	**30**	**32,060**

				31/12/2015
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	335	1,923	626	2,884
Derivatives	–	16,335	35	16,370
Financial assets available-for-sale	11,124	2,267	68	13,459
TOTAL FINANCIAL ASSETS	**11,459**	**20,525**	**729**	**32,713**
Financial liabilities at fair value through the income statement	–	1,788	–	1,788
Derivatives	–	23,217	44	23,261
TOTAL FINANCIAL LIABILITIES	**–**	**25,005**	**44**	**25,049**

SIGNIFICANT MOVEMENTS IN FAIR VALUE OF LEVEL 3 ITEMS

	FIRST HALF OF 2016			
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (LIABILITIES)
OPENING BALANCE	**626**	**35**	**68**	**44**
Results recorded in the income statement				
– Interest result	5	11	0	12
– Unrealised result on financial transactions	8	–25	0	–25
– Realised result on financial transactions	0	0	0	0
	13	–14	0	–13
Unrealised value adjustments via the revaluation reserve	–	–	0	–
Investments	0	0	0	0
Cash flows	–19	0	0	–1
Transferred to Level 2	0	0	–44	0
Transferred from Level 2	0	0	0	0
Derivatives from assets to liabilities, and vice versa	–	0	–	0
CLOSING BALANCE	**620**	**21**	**24**	**30**

	2015			
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (LIABILITIES)
OPENING BALANCE	**844**	**40**	**66**	**51**
Results recorded in the income statement				
– Interest result	9	2	0	3
– Unrealised result on financial transactions	–6	–9	0	–10
– Realised result on financial transactions	3	0	0	0
	6	–7	0	–7
Unrealised value adjustments via the revaluation reserve	–	–	2	0
Investments	0	2	0	0
Cash flows	–57	0	0	0
Transferred to Level 2	–167	0	0	0
Transferred from Level 2	0	0	0	0
Derivatives from assets to liabilities, and vice versa	–	0	–	0
CLOSING BALANCE	**626**	**35**	**68**	**44**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded. Because of this absence of trading, the observable market data available for similar securities is not fully representative of the current fair value. The fair value of these transactions is therefore determined on the basis of observable market data that are adjusted using significant input variables which are not publicly observable in the market.

Under the item Financial assets available-for-sale a Portuguese investment was reclassified due to improved availability of observable input factors. The investment totalling EUR 44 million was reclassified from Level 3 to Level 2.

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 that are not publicly observable in the market.

LOANS AND ADVANCES

For the purpose of determining the spreads of three reclassified interest-bearing securities with a monoliner guarantee, the following input variables which are not publicly observable in the market are used:
- recovery rates for the relevant debtors (0.4) and the relevant monoline insurers (0.3);
- a correlation factor between the debtor and the monoline insurer (0.9).

FINANCIAL ASSETS AT FAIR VALUE

For the purpose of determining the spreads of three inflation-linked interest-bearing securities with a monoliner guarantee, the following input variables which are not publicly observable in the market are used:
- recovery rates for the relevant debtors (0.4) and the relevant monoline insurers (0.3);
- a correlation factor between the debtor and the monoline insurer (0.2).

Due to the absence of publicly observable market data, specific liquidity spreads were applied in determining the individual spread curves for both an RMBS transaction with an NHG guarantee and for a Portuguese debtor.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Due to the absence of public market data, specific liquidity spreads were applied in determining the individual spread curves of four ABS transactions. In determining the market value of an infrastructure participation fund the price was established on the basis of the fund's net asset value (131%).

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

In the sensitivity analysis, the components interest, inflation 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 movement in these significant input factors. Despite the fact that there are no direct dependencies between these input factors, the sensitivity of the instruments in the event of a simultaneous shift in these three input factors is presented at the bottom of the table.

IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN RESPECTIVE INPUT FACTORS

	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (LIABILITIES)		TOTAL	
BALANCE SHEET VALUE	620	626	21	35	24	68	−30	−44	635	685
INTEREST RATE										
+10 basis points	−7	−7	−5	−1	0	0	0	0	−12	−8
−10 basis points	7	7	5	1	0	0	0	0	12	8
+100 basis points	−61	−57	−51	−4	0	0	−1	−6	−112	−67
−100 basis points	83	77	54	26	0	0	0	1	137	104
INFLATION RATE										
+10 basis points	7	7	0	0	0	0	0	0	7	7
−10 basis points	−7	−6	0	0	0	0	0	0	−7	−6
+100 basis points	83	77	0	0	0	0	0	0	83	77
−100 basis points	−61	−56	0	0	0	0	0	0	−61	−56

Continued on next page

Continuation of previous page	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (ASSETS)		FINANCIAL ASSETS AVAILABLE-FOR-SALE		DERIVATIVES (LIABILITIES)		TOTAL
CREDIT AND LIQUIDITY SPREAD										
+10 basis points	−9	−9	2	5	0	0	1	0	−6	−4
−10 basis points	9	9	−1	−5	0	0	−1	0	7	4
+100 basis points	−78	−75	27	55	0	−3	7	1	−45	−22
−100 basis points	103	98	−9	−33	0	3	−11	−7	83	61
TOTAL SIGNIFICANT INPUT FACTORS										
+10 basis points	−9	−8	−4	4	0	0	1	0	−12	−4
−10 basis points	9	9	4	−3	0	0	−1	−1	12	5
+100 basis points	−77	−74	−25	52	0	−2	6	1	−95	−23
−100 basis points	105	101	47	13	0	3	−12	−19	140	98

BNG Bank hedges nearly all its interest rate risks through swaps. The fair value adjustments to interest-bearing securities arising from a change in the interest curve alone therefore have a limited impact on the bank's result and equity. The sensitivity to interest rate fluctuations and the value adjustments to interest-bearing securities and loans with an inflationary component began to diverge from the relevant swaps concluded to hedge the currency, interest rate and inflation risks. Partly as a result of using OIS discounting for swaps (whereby collateral obligations are exchanged on a daily basis), the sensitivity level is no longer perfectly reversed. By the end of the maturity of the assets and the associated swaps these changes in market value will approach zero, provided that all parties have met their payment obligations. Finally, interest rate shifts caused by changing credit and liquidity risk spreads do have a direct impact on the result and the equity.

A major part of the assets (EUR 327 million) in Level 3 consist 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 is set at zero, this would have had an unrealised negative effect on the result on financial transactions of approximately EUR 47 million at mid-year 2016 (year-end 2015: EUR 33 million negative).

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.

				30/6/2016
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with the central banks	4,290	–	–	4,290
Amounts due from banks	332	15,997	11	16,340
Loans and advances	1,164	99,689	7,665	108,518
TOTAL FINANCIAL ASSETS	**5,786**	**115,686**	**7,676**	**129,148**
Amounts due to banks	–	3,439	–	3,439
Debt securities	85,082	30,909	1,340	117,331
Funds entrusted	2,178	117	4,779	7,074
Subordinated debts	–	–	49	49
TOTAL FINANCIAL LIABILITIES	**87,260**	**34,465**	**6,168**	**127,893**

				31/12/2015
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with the central banks	3,175	–	–	3,175
Amounts due from banks	381	10,158	12	10,551
Loans and advances	1,827	94,513	7,460	103,800
TOTAL FINANCIAL ASSETS	**5,383**	**104,671**	**7,472**	**117,526**
Amounts due to banks	2	2,966	–	2,968
Debt securities	81,343	27,327	1,342	110,012
Funds entrusted	2,280	75	4,797	7,152
Subordinated debts	–	–	47	47
TOTAL FINANCIAL LIABILITIES	**83,625**	**30,368**	**6,186**	**120,179**

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

Loans and advances granted to statutory clients 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 relate to negotiable benchmark bonds issued by BNG Bank. Privately withdrawn resources are classified under Level 3.

OFF-BALANCE SHEET COMMITMENTS

CONTINGENT LIABILITIES

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

REVOCABLE FACILITIES

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

IRREVOCABLE FACILITIES

This includes all irrevocable commitments which can lead to the granting of loans and advances. These facilities are divided into master agreements and contracted loans and advances to be distributed in the future in the table below.

	30/6/2016	31/12/2015
Contingent liabilities	90	99
Revocable facilities	7,178	6,694
Irrevocable facilities:		
– Master agreements concerning the unutilised part of credit facilities	4,270	4,384
– Contracted loans and advances to be distributed in the future	2,496	2,031
TOTAL OFF-BALANCE SHEET COMMITMENTS	**14,034**	**13,208**

EVENTS AFTER THE BALANCE SHEET DATE

There are no events subsequent to the balance sheet date that would require adjustments to the figures or disclosures in the Interim Report.

The Hague, 26 August 2016

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIR

O.J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR

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

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MS P.H.M. HOFSTÉ

MS J. KRIENS

J.C.M. VAN RUTTE

Review report

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

INTRODUCTION

We have reviewed the accompanying consolidated interim financial information for the six-month period ended 30 June 2016 of N.V. Bank Nederlandse Gemeenten, Den Haag, which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period then ended and the selected explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 26 August 2016

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

COLOPHON

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