Annual Report 2013

BNG BANK

BANK

PROFILE

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

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

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

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

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

This is an unofficial translation of the Jaarverslag 2013 (Dutch Annual Report 2013) and is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.

SELECTED FINANCIAL DATA

(Amounts in millions of euros)

	2013	2012	2011	2010	2009
Balance sheet total	131,183	142,228	136,460	118,533	104,496
Loans and advances	92,074	90,725	90,775	86,851	79,305
of which granted to or guaranteed by public authorities	81,701	79,666	78,548	75,247	67,164
of which reclassified from the Financial assets available-for-sale item	2,259	2,603	3,219	3,724	4,226
Equity excluding unrealized revaluations [1]	2,918	2,718	2,450	2,321	2,204
Unrealized revaluations [2]	512	34	−553	−62	49
Equity per share (in euros) [1]	52.41	48.81	44.00	41.68	39.58
Leverage ratio [3]	2.3%	2.0%	1.8%	2.0%	2.1%
BIS Tier 1 ratio [3]	24%	22%	20%	20%	19%
BIS ratio [3]	24%	22%	21%	20%	20%
Profit before tax	397	460	339	337	350
Net profit	283	332	256	257	278
Profit per share (in euros)	5.08	5.96	4.60	4.61	4.98
Proposed dividend	71	83	64	128	139
Dividend as a percentage of consolidated net profit	25%	25%	25%	50%	50%
Dividend per share (in euros)	1.27	1.49	1.15	2.30	2.49
Number of staff (in FTEs) at year-end	273	279	278	276	277
of whom employed by subsidiaries	29	36	41	45	58

1 Excluding revaluation reserve and cash flow hedge reserve.

2 This concerns the unrealized revaluations within the equity, being the revaluation reserve and the cash flow hedge reserve. For further details, please refer to the balance sheet section in the Report of the Executive Board under Financial review, and to notes 14 and 32 in the financial statements.

3 The solvency ratios are calculated and presented in accordance with the Basel II regulations applicable through 2013.

FOREWORD

The year 2014 marks BNG Bank's 100th anniversary. Founded on 23 December 1914 the bank's objective was to make a sustainable contribution to minimizing the cost of social provisions for the public. An objective which, with minor modifications to wording, endures to date. It is an objective in which corporate social responsibility is embedded. An objective that has lost none of its relevance over the past century and one that has enabled BNG Bank to fulfill an important role in Dutch society.

BNG Bank has seen growing support for its operations. A century ago it was founded by 37 of the over 1,100 Dutch municipalities at that time. Today almost all municipalities and provinces, a district water board and the central government rank among BNG Bank's shareholders. They support our mission, which is to provide affordable financing to government authorities and public sector institutions at all times. And, even in difficult economic times, to keep its 'counter' open for these clients.

BNG Bank seeks to strike a **sustainable balance** between the interests of its clients, shareholders and employees.

The establishment of BNG Bank in 1914 was born out of the need for 'municipalities to collaborate on credit demand.' The founders' philosophy was that a combined body that would function as an intermediary would strengthen the municipalities' negotiating position on the capital market. BNG Bank continues to derive value from its role as an intermediary between investors – primarily international investors today – and Dutch clients.

To provide clients affordable financing BNG Bank must under all circumstances be able to acquire capital at the lowest possible interest rates. Money and capital market parties must therefore have confidence in BNG Bank. This means that the bank's excellent creditworthiness – similar to that of the Dutch government – must always be safeguarded.

BNG Bank's clients are primarily municipal and provincial authorities, housing associations and healthcare institutions. These client groups are facing great challenges due, in part, to major changes in laws and regulations. Client interests traditionally take center stage at BNG Bank and serves our clients with custom products and services at competitive rates, where possible. As such, BNG Bank plays a supporting role in implementing Dutch government policy.

This is illustrated by the support BNG Bank provided to its clients in 2013 in preparing for the Single European Payments Area (SEPA) that will enter into force in 2014. And whilst, in the course of the legislative process, BNG Bank highlighted the risks and administrative burden for the municipal and provincial authorities arising from mandatory treasury banking, BNG Bank cooperated constructively in implementing this in the past year.

The municipal and provincial authorities in the Netherlands are facing great changes in their areas of responsibility, which will moreover be coupled with substantial financial targets. This is taking place at a time in which the financial position of many public authorities already is under pressure. BNG Bank will do its utmost, within the scope of its Articles of Association, to support its clients in overcoming these challenges. Housing associations will need to conform to government policy and confine their activities to their core business, in other words focus on activities for the social housing sector. Should this lead to growing demand for non-guaranteed financing in the long term, BNG Bank will continue to serve the relevant clients within its possibilities. Lastly, BNG Bank has expressed concern about the financeability of the healthcare sector. Because the government has transferred the risks in this sector to banks and insurers, this consequently restricts banks' capacity to provide financing for healthcare real estate.

Influenced by the crisis the financial regulations have grown strongly. Not only does this impose a heavier administrative burden on BNG Bank but it also has further implications for its stakeholders. The new IFRS rule concerning Fair Value Measurement will, for instance, have an impact on the annual result which will see a limited but structural increase in volatility. The Basel III regulations have now been incorporated in the European Capital Requirements Directive (CRD IV) and will be implemented in phases between now and 2019. BNG Bank will mainly be affected by the proposed 3% minimum for the leverage ratio in the European Union. In 2013 BNG Bank submitted its updated plan to the regulator concerning compliance with this requirement by the end of 2017 at the latest.

In 2013 it became clear that due to the size of its balance sheet total BNG Bank will most probably be one of the 128 banks to fall under the direct supervision of the European Central Bank (ECB). This too will intensify the administrative burden. The Asset Quality Review and the Stress Test will impose a significant burden on the organization in the year ahead. The bank has every confidence in the results of the review and the test. ECB supervision is expected to take effect in November 2014.

Through their industry organizations BNG Bank's main client groups contributed to the National Energy Agreement that was signed in 2013. At the local level numerous clients undertook sustainable investment initiatives. BNG Bank finances initiatives including sustainable new-build social housing, healthcare institutions and public buildings and sustainable power stations. The bank is currently working out details of financing possibilities for sustainable investments in four areas. The main focus is on developing loans to finance the roll-out of solar panels on housing association homes and making existing accommodations more sustainable. The Corporate Responsibility Section of this Annual Report was prepared in accordance with the Global Reporting Initiative (GRI) guidelines.

BNG Bank seeks to strike a sustainable balance between the interests of its clients, shareholders and employees. Our employees are our most important asset and we therefore place a strong emphasis on their development and growth. Reliable, professional and contemporary are the keywords in this context.

I wish to thank all of BNG Bank's stakeholders for their contribution throughout the years. The year 2013 was marked not only by the gradual quietening down of the financial markets but also by a flood of new regulations for both the bank and its stakeholders. BNG Bank's assumption is that its strategy will remain unchanged in the next three to five years. The objectives it has set among other things for the CSR key performance indicators therefore remain in line with those of the preceding years. We have confidence in the current year, irrespective of the many challenges we face. ■

On behalf of the Executive Board,

CAREL VAN EYKELENBURG
CHAIRMAN
The Hague, 7 March 2014

1 Organization

MANAGEMENT[5]

C. VAN EYKELENBURG (1952)
CHAIRMAN OF THE EXECUTIVE BOARD

MRS. P.J.E. BIERINGA (1959)
MANAGING DIRECTOR PUBLIC FINANCE

G.J. THOMAS (1950)
MANAGING DIRECTOR SECRETARY

F.C.M. JANSE (1966)
MANAGER MARKETING AND COMMUNICATIONS

R.C.J. DE JONG (1968)
MANAGER INTERNAL AUDIT DEPARTMENT

MRS. J.C. VESTER-VOS (1960)
MANAGER HUMAN RESOURCES

J.J.A. LEENAARS (1952)
MEMBER OF THE EXECUTIVE BOARD

O. LABE (1969)
MANAGING DIRECTOR TREASURY & CAPITAL MARKETS

B.P.M. VAN DOOREN (1957)
MANAGER CAPITAL MARKETS AND INVESTOR RELATIONS

H.E. QUAST (1968)
MANAGER LEGAL AFFAIRS, FISCAL AFFAIRS AND COMPLIANCE

J.C. REICHARDT (1958)
MEMBER OF THE EXECUTIVE BOARD

R. VAN WOERDEN (1958)
MANAGING DIRECTOR PROCESSING

P.J. KORTLEVE (1969)
MANAGER PLANNING AND CONTROL

H.R. NOORDAM (1966)
MANAGER RISK CONTROL

R.G. WIJDOOGEN (1963)
MANAGER CREDIT RISK ASSESSMENT

[4] Effective 1 January 2014.
[5] Each member of the Executive Board is responsible for a number of directorates and (staff) departments. The directors and department heads who report directly to Executive Board members are listed above. An organization chart can be viewed on www.bngbank.nl. The organizational structure of risk management is set out in the Risk section of the Annual Report.

COMPOSITION AND BACKGROUND OF THE EXECUTIVE BOARD[6]

C. VAN EYKELENBURG

Mr. Van Eyklenburg was appointed an Executive Board member on 1 January 2005. He became Chairman on 15 October 2008 and was reappointed as Chairman on 15 October 2012 for a four-year term of office. This period may be extended. In connection with his position at BNG Bank, Mr. Van Eykelenburg is a Board member and Treasurer of the Dutch Banking Association (NVB) and Chairman of the Supervisory Board of BNG Gebiedsontwikkeling BV, a BNG Bank subsidiary. He also is an Executive Board member of Stichting Pensioenfonds ABP, a member of the Internal Supervisory Committee of Shell Pension Fund and Chairman of the W.F. Hermans Institute.

J.J.A. LEENAARS

Mr. Leenaars was appointed an Executive Board member on 15 October 2002 for an indefinite period. In connection with his position at BNG Bank, Mr. Leenaars is a Supervisory Board member of Stichting Waarborgfonds HBO, a Board member of the Centre for Research on Local Government Economics (COELO), a Supervisory Board member of N.V. Trustinstelling Hoevelaken and Chairman of the Supervisory Boards of the BNG subsidiaries Hypotheekfonds voor Overheidspersoneel BV and BNG Vermogensbeheer BV. He also is Professor of Accounting Information Systems at the University of Amsterdam, Chairman of the Supervisory Board of Chassé Theatre in Breda and Chairman of the Advisory Council of ILFA.

J.C. REICHARDT

Mr. Reichardt was appointed an Executive Board member on 15 October 2008 and reappointed on 15 October 2012 for a four-year term of office. This period may be extended. In connection with his position at BNG Bank, Mr. Reichardt is Chairman of the Supervisory Board of Data B. Mailservice 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 the BNG subsidiaries Hypotheekfonds voor Overheidspersoneel BV, BNG Gebiedsontwikkeling BV and BNG Vermogensbeheer BV. He also is a Supervisory Board member and Chairman of the Audit Committee of RDW and a member of the National Renovation Platform.

[6] The Executive Board profile is published on www.bngbank.nl. The duties and responsibilities of the Executive Board (members) are described in the Executive Board Rules of Procedure published on www.bngbank.nl. The desire for diversity on the Executive Board, also in terms of sex and age, is included in this profile and will be expressly emphasized during the recruitment and selection procedure. The Executive Board is composed of three men. At the time of their appointment as members and chairman of the Executive Board the Supervisory Board deemed that they were the best candidates for these roles. There are currently no vacancies on the Executive Board and no changes will be made or members added in the short term. As soon as a vacancy arises, a candidate will be sought who matches the Executive Board profile drawn up by the Supervisory Board.

COMPOSITION AND BACKGROUND OF THE SUPERVISORY BOARD [7, 8, 9]

H.O.C.R. RUDING [10,11] (1939)

CHAIRMAN

Former Vice-Chairman of the Citicorp/Citibank Executive Board, New York, and former Minister of Finance.
Appointed on 12 May 2004, reappointed on 28 April 2008 and reappointed a second time on 23 April 2012. He is due to retire from the Supervisory Board in 2016.

MRS. S.M. DEKKER [10,11,12] (1942)

VICE-CHAIRMAN AND SECRETARY

Former Minister of Housing, Spatial Planning and the Environment.
Appointed on 24 May 2007, reappointed on 26 April 2011 and is eligible for reappointment in 2015. In addition to being a BNG Bank Supervisory Board member, she is a Supervisory Board member of Royal Haskoning DHV BV.

H.H. APOTHEKER [12] (1950)

Mayor of the municipality of Súdwest-Fryslân.
Appointed on 16 May 2002, reappointed on 17 May 2006, reappointed for a second time on 26 April 2010 and is due to retire in 2014. In addition to being a member of the BNG Bank Supervisory Board, he is a Supervisory Board member of PPG Industries Fiber Glass BV and Chairman of the NHL Hogeschool Supervisory Board.

T.J.F.M. BOVENS [12] (1959)

King's Commissioner for the Province of Limburg.
Appointed on 23 April 2012 and is eligible for reappointment in 2016.

W.M. VAN DEN GOORBERGH [10,11,13] (1948)

Former Chairman of the Rabobank Nederland Executive Board.
Appointed on 15 May 2003, reappointed on 24 May 2007, reappointed a second time on 26 April 2011 and is due to retire in 2015. In addition to being a member of the BNG Bank Supervisory Board, he is Chairman of the Supervisory Boards of De Welten Groep Holding BV, NIBC Bank NV and DELA, a member of the Mediq NV Supervisory Board and a Board member of the Stichting Catholic University of Nijmegen.

MRS. P.H.M. HOFSTÉ [13] (1961)

Former Executive Board member and Chief Financial and Risk Officer of APG Groep NV.
Appointed on 22 April 2013 and is eligible for reappointment in 2017.

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7 The duties and responsibilities of the Supervisory Board (members) are described in the Supervisory Board Rules of Procedure published on www.bngbank.nl. Supervisory Board members are appointed for a four-year term of office and are eligible for reappointment twice in accordance with the Dutch Corporate Governance Code. The profile of and retirement schedule for the Supervisory Board can also be found on the bank's website. All members of BNG Bank's Supervisory Board are Dutch nationals. The Supervisory Board comprises three women and six men.

8 BNG Bank seeks to ensure the independence of its Supervisory Board members by adhering to the following guidelines. Supervisory Board members have never been employed by the company. They have no other business relationships with BNG Bank from which they could acquire personal gain. The Supervisory Board members receive a fixed annual remuneration, which is not dependent on the bank's performance in any year. The Supervisory Board remuneration regulations are published on www.bngbank.nl. 'Interlocking directorships' among the Supervisory Board members, or among the latter and the Executive Board do not exist. Supervisory Board members hold no shares in the company.

J.J. NOOITGEDAGT[13] (1953)
Former Chief Financial Officer and an Executive Board member of AEGON NV.
Appointed on 23 April 2012 and is eligible for reappointment in 2016. In addition to being a BNG Bank Supervisory Board member, he is Chairman of the SNS Reaal NV Supervisory Board and a Supervisory Board member of Robeco Groep NV and TMG NV*.

R.J.J.M. PANS[10,11] (1952)
Member of the Council of State in the Netherlands.
Appointed on 15 May 2003, reappointed on 24 May 2007, reappointed a second time on 26 April 2011 and is due to retire early in 2014. In addition to being a member of the BNG Bank Supervisory Board, he is Chairman of the Stichting Coloriet Supervisory Board.

MRS. M. SINT[12] (1949)
Chairman of the Supervisory Board of Isala clinics in Zwolle.
Appointed on 20 August 2012 and is eligible for reappointment in 2017. In addition to being a member of the BNG Bank Supervisory Board, she is the Chairman of the NV ROVA Supervisory Board and a Supervisory Board member of the BPF Bouwinvest BV.

EMPLOYEES' COUNCIL

MRS. S.D.P. HUIZER (1968)
CHAIRMAN

J.H. BOOM (1951)
SECRETARY

G.J. VAN DUFFELEN (1978)

MRS. F.N. ELDERHORST-BRUSSEE (1976)

J.P. KRAUS (1970)

R. MOLINA (1954)

L.H.J.M. TULFER (1950)

F.W.A. ZWETSLOOT (1971)

9 Additional positions are only stated if they are managerial or supervisory positions with institutions that are relevant under the Management and Supervision Act. A register containing all additional positions held by the Supervisory Board members is published on www.bngbank.nl. Positions and additional positions with publicly listed companies in the Netherlands are shown with an asterisk.
10 Member of the Selection and Appointments Committee as referred to in Article 16 of the Articles of Association.
11 Member of the Remuneration Committee as referred to in Article 16 of the Articles of Association.
12 Member of the Market Strategy Committee as referred to in Article 16 of the Articles of Association.
13 Member of the Audit & Risk Committee as referred to in Article 16 of the Articles of Association.

Report of the Supervisory Board

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

The Annual Report of N.V. Bank Nederlandse Gemeenten presented in this document includes the financial statements and the report drawn up by the Executive Board for the year 2013. Ernst & Young Accountants LLP have issued an unqualified opinion on the 2013 financial statements. The sections covering Corporate Social Responsibility reporting have been provided with an assurance report from Ernst & Young Accountants LLP. We propose to the shareholders that they adopt the financial statements and discharge the Executive Board members for their management duties and the Supervisory Board members for their supervision duties, as reflected in the financial statements and the Annual Report. Upon the adoption of the financial statements and the profit appropriation included in it, a dividend of EUR 1.27 per share with a nominal value of EUR 2.50 will be distributed for the 2013 financial year (2012: EUR 1.49).

COMPOSITION OF THE SUPERVISORY BOARD

The number of members and profile of the Supervisory Board remained unchanged during the year under review. The composition of the Supervisory Board was in line with the Supervisory Board profile.

Mrs. H.G.O.M. Berkers retired from the board in the financial year. She has served the Supervisory Board with her expertise and experience since 2009 and also served on the Audit & Risk and Market Strategy Committees. The Board is grateful for her contribution.

In connection with Mrs. Berkers' retirement the Supervisory Board drew up an individual profile within the scope of the full Supervisory Board profile. On that basis Mrs. P.H.M. Hofsté was nominated as a replacement candidate. The General Meeting of Shareholders appointed Mrs. Hofsté on 22 April 2013. Following her appointment Mrs. Hofsté attended the induction program provided by BNG Bank.

In 2013 the shareholders furthermore took note of the individual profiles that were drawn up following the announcement of the retirement from office of

Messrs. H.H. Apotheker and R.J.J.M. Pans as well as the individual profile drawn up for an additional vacancy created by the Supervisory Board. During the annual evaluation of its performance, the Supervisory Board concluded that the candidates it wishes to nominate for these vacancies will enable the Supervisory Board and its Committees to continue to meet the desired profile. The Supervisory Board has sufficient members to enable it to perform its duties properly, including those of the Supervisory Board Committees.

The composition of the Supervisory Board is included in the chapter covering the Organization, which provides information on each Supervisory Board member relevant to the fulfillment of their Supervisory Board duties.

SUPERVISORY BOARD REMUNERATION

The remuneration policy for Supervisory Board members was adopted by the General Meeting of Shareholders on 26 April 2011 and is published on bngbank.nl. The remuneration policy applies to the period from 1 January 2012 through 31 December 2016.

PERMANENT EDUCATION OF THE SUPERVISORY BOARD

In 2012 the permanent education program for the entire Supervisory Board included a component covering the International Capital Markets – theory and practice at BNG Bank. The speakers were Mr. M. Schepers, Vice President, Finance and Chief Financial Officer of the European Bank for Reconstruction and Development, and Mr. J.J.A. Leenaars, Executive Board member of BNG Bank. A session on government guarantees and guarantee funds was organized for the members having specific expertise and experience in the financial sector. The speakers were Mr. T.R.J.P. Kroes, Managing Director Group Strategy and Policy of APG and Mrs. B.J.C.J. van Hoesel-Snel, Managing Director of WSW (Social Housing Guarantee Fund). Messrs. E. Herrie and G. Thomassen, both working for KPMG, and Mr. J.C. Reichardt, Executive Board member of BNG Bank, held an introduction on Asset & Liability Management – theory and practice at BNG Bank for the other Supervisory Board members. With a few exceptions due to absence, all members of the Supervisory Board completed the permanent education program. No members used the opportunity to indicate individual training requirements and to follow a tailor-made course. The Supervisory Board evaluated the effectiveness of the program, concluding that the 2013 program met its objectives but decided to direct the full program towards all members with effect from 2014 and to more actively emphasize individual training needs. The Supervisory Board furthermore determined which of the topics mentioned in the Dutch Banking Code should be addressed in 2014.

PERFORMANCE OF THE SUPERVISORY BOARD

The Supervisory Board evaluates its own performance annually. The 2013 evaluation took place under the direction of Mr. J.W. Winter of Phyleon governance & leadership BV. He conducted individual meetings with all Supervisory and Executive Board members and with several other individuals who were able to provide insight into the interaction between the two Boards. All of the interviewees also completed the 'Board Reality Questionnaire'. Mr. Winter presented his findings to the Supervisory Board meeting on 10 January 2014. A conclusion drawn by the Supervisory Board was that it would be advisable to reserve more time for plenary consultation behind closed doors and for plenary consultations with the external auditor without the Executive Board members in attendance. These actions will be addressed in 2014. In 2013 the attendance rate of the plenary meetings of the Supervisory Board and the meetings of the committee amounted to 92%.

SUPERVISORY BOARD ACTIVITIES

During the reporting period the Supervisory Board convened on six occasions. During the 21 June 2013 meeting all Supervisory Board and Executive Board members took the oath or affirmation for the financial sector. In addition to the plenary considerations of the topics prepared by the several committees, the following topics were discussed in the Supervisory Board meetings: preparation of the General Meeting of Shareholders, the Dutch Central Bank's response to the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP) 2012, the progress made on key projects and the implications of new regulations on BNG Bank's operations. The Supervisory Board furthermore considered the bank's duty of care in respect of the activities conducted by guarantee funds and the possible implications for the bank of the report of the Commission on the Structure of Dutch Banks, and the Memorandum on Central Government Participations Policy 2013. The plenary Board approved among others the long-term plan, the 2014 annual plan and budget, the 2014 risk appetite statement and the 2012 remuneration report. The Supervisory Board concluded that the highest variable remuneration within the bank is consistent with BNG Bank's remuneration policy. Lastly, at the request of the Dutch Central Bank (DNB) a Supervisory Board delegation discussed several strategic topics during a meeting held with the regulatory authority. The strategic topics were the market position of BNG Bank and this position in relation to relevant stakeholders, de banks risks in connection with its capital (BIS Tier 1 ratio and leverage ratio) and European supervision.

AUDIT & RISK COMMITTEE ACTIVITIES

The Audit & Risk Committee met three times during the year under review. The internal and external auditors attended all the meetings. The committee prepared the discussion by the plenary Supervisory Board concerning the quarterly and semi-annual figures, the Annual Report and the management letters of the internal and external auditors, including the Executive Board's response to the latter. The internal and external auditors were present during the review of the annual financial statements in the Supervisory Board meeting. The committee also prepared the decision-making by the plenary Supervisory Board concerning BNG Bank's risk appetite, multi curve hedge accounting, leverage ratio policy, the BNG portfolio credit risk report, the country and sector analyses report and the amendment of the Audit & Risk Committee Charter, the Internal Audit Charter, the Compliance Statute and the Risk Control Charter. Furthermore, the Audit & Risk Committee discussed the 2012 Compliance Report, the 2012 Incidents Report, the 2014 Compliance Program, the 2014 IAD Annual Plan, the external auditor's audit plan regarding BNG Bank's 2013 financial statements and the reports on the tripartite talks between the Dutch Central Bank, the external auditor and BNG Bank. The committee also took note of the rating agency reports on BNG Bank, the GIIPS exposure report, the report on the liquidity portfolio, the results of the quality audit conducted by the Internal Audit Department (IAD) and the report on the periodic consultation held by the committee chairman with the head of IAD. These topics were also discussed by the plenary Board. As a rule, the Audit & Risk Committee consults with the internal and external auditors once a year without the presence of the Executive Board. No particular points requiring attention emerged from this consultation in 2013.

REMUNERATION COMMITTEE ACTIVITIES

The Remuneration Committee convened on two occasions during the year under review. The committee prepared decision-making by the plenary Supervisory Board concerning the 2012 remuneration report, the variable remuneration policy for the Executive Board in relation to the Bank Tax Act (Wet Bankenbelasting), the 2013 variable remuneration performance targets for the Executive Board, compliance with the Regulation for Sound Remuneration Policies Wft 2011 and the report on remuneration policy for 2012-2013, which included the remuneration policies for the Executive Board and senior management and the remuneration policy principles for the remaining workforce in mutual dependency, including the highest variable remuneration.

SELECTION AND APPOINTMENTS COMMITTEE ACTIVITIES

The Selection and Appointments Committee convened on six occasions during the year under review. The committee prepared decision-making by the plenary Supervisory Board concerning the appointment or reappointment of Supervisory Board members, the report on the Executive Board's variable remuneration targets for 2012 (leading to the determination of variable remuneration for the Executive Board), the division of responsibilities among the Executive Board members, the additional positions held by the Executive Board members, and the permanent education program for the Supervisory and Executive Boards. The committee also discussed the continuity of the membership of the two Boards in the years following 2014. After the committee had evaluated the Supervisory Board profile in 2012, it proceeded to evaluate the Executive Board profile in 2013.

MARKET STRATEGY COMMITTEE ACTIVITIES

The Market Strategy Committee convened on four occasions in the year under review. The committee's remit is to discuss developments relevant to BNG Bank's client groups and the adequacy of the existing and potential services to these groups. Three dialog meetings were organized for this purpose between the committee with several experts, representatives of BNG Bank's core client sectors and the bank's sector specialists. The topics discussed were 'the diffident municipal and provincial authorities' (the financial position and the financing of municipalities), future financial possibilities for housing associations and the financial sustainability and financing of healthcare. The conclusions are included in the bank's long-term plan. Furthermore, the committee prepared the discussion by the plenary Supervisory Board concerning the commercial components of the 2014 annual plan. Particular attention was paid to the development of lending and portfolio management. Finally, the committee prepared the decision-making on the corporate social responsibility (CSR) aspects relevant to BNG Bank's business. Emphasis was placed in particular on developing a form of financing for the roll-out of solar panels on housing association homes.

PROFILE OF THE EXECUTIVE BOARD

The profile of the Executive Board remained unchanged in the year under review. In 2013 the composition and the division of tasks were consistent the profile.

EXECUTIVE BOARD REMUNERATION POLICY

The General Meeting of Shareholders adopted the Executive Board remuneration policy on 27 April 2009, which is published in full on bngbank.nl. The remuneration policy falls within the scope of the central government's remuneration policy for government participations, the Dutch Corporate Governance Code, the Dutch Banking Code and the Regulation for Sound Remuneration Policies Wft 2011. The fixed component of the remuneration consists of 12 times the monthly salary plus vacation allowance. The annual variable remuneration for each Executive Board member is maximized at 25% of the fixed remuneration. Each year the Supervisory Board sets quantitative and qualitative targets for the variable remuneration. Each target is awarded a weighting in the total. If the quantitative targets are met, 70% of the maximum variable remuneration is paid. 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 based on comparison with what is considered normal in the Dutch labor market sector relevant to BNG Bank. In order to make this comparison, a reference group of financial and similar institutions in both the (semi-)public and private sectors was defined in consultation with the shareholders. In principle, every two years the Supervisory Board reviews whether developments in the reference group warrant modification of the Executive Board terms of employment. The established remuneration policy applies in its entirety to executives appointed after 1 January 2009. The existing employment contracts of executives appointed before that date are respected. Any room offered by these existing contracts to align remuneration with the established policy will be utilized. A further topic discussed was the reduction of variable remuneration for members of the Executive Board. The members voluntarily proposed that the maximum variable remuneration be reduced from 35 to 25% of the fixed remuneration without compensation in the fixed remuneration. This is in response to the Bank Tax Act, which involves a substantial rise of the bank levy for percentages exceeding 25%.

REALIZATION OF THE 2013 VARIABLE REMUNERATION TARGETS

A market share target and a margin target for lending to municipal and provincial authorities, housing associations and healthcare institutions (10% weighting factor each) were set for the 2013 variable remuneration and a production target for lending in other sectors (10% weighting factor) as laid down in the 2013 annual plan. In addition, a return target was applied (40% weighting factor). The qualitative targets set (30% weighting factor) related to agreements on achieving and implementing an actualized standard price model, preparing and implementing a central clearing system, achieving and implementing a new system for valuation

[14] The Act on the Standardisation of the Remuneration of Senior Executives in the Public and Semi-Public Sector (Wet Normering Topinkomens) does not apply to BNG Bank. This Act and the so-called Wopt standard applies to public institutions (government departments, provinces, municipalities and water boards) and to semi-public institutions (hospitals, schools, public broadcasting organizations and housing associations). BNG Bank is neither a public nor a semi-public institution, but a public corporation under Dutch law, subject to the condition set out in its Articles of Association that its prospective client base is limited to public authorities and public sector institutions.

[15] At that time the reference group comprised of AFM, the Dutch State Treasury Agency, DNB, FMO, IBG, NWB Bank, SVB, UWV, councillor large city, AEGON, APG, Cordares, De Lage Landen, Delta Lloyd Groep, Friesland Bank, ING Group, NIBC, PGGM, Rabobank, Robeco, SNS REAAL, Triodos Bank and Van Lanschot.

and hedging and the uninterrupted operation of the payment system for clients in relation to outsourcing and meeting the SEPA-imposed requirements on the payment system. The total costs were required to remain within the budget set for 2013. Following the Selection and Appointments Committee's advice, the Supervisory Board determined the degree to which the 2013 variable remuneration targets were met by the Executive Board members and decided on a 93% pay-out percentage accordingly (2012: 92%). The Supervisory Board deems this result fair and did not use its discretionary authority to adjust the variable remuneration. In 2013 the Supervisory Board also concluded that there was no reason to consider exercising its authority to reclaim any variable remuneration awarded for the previous years.

RESULTS OF THE 2013 REMUNERATION POLICY AND OUTLOOK FOR THE COMING YEARS

For an overview of the Executive Board members' remuneration, please refer to note 33 in the consolidated financial statements. The results of the 2013 remuneration policy are based on the following determining factors:

- The incumbent executives were appointed prior to 1 January 2009. The employment contracts concluded with them will be respected.
- The pay-out percentage determined for the 2013 variable remuneration is 93%.
- After reassessment, on the advice of the Selection and Appointments Committee the Supervisory Board resolved to pay the deferred portion of the variable remuneration for 2010.

The Executive Board members receive an annual allowance for business expenses of EUR 3,900 each. No shares or options are awarded. The level of the 2013 variable remuneration falls within the pre-approved range of 0 to 25% of the fixed remuneration.

In the Memorandum on Central Government Participations Policy, the Dutch Minister of Finance expressed the intent towards all government participations to conduct a reasonable review of the maximum remuneration set out in the current remuneration policy and to maximize the variable remuneration for executives at 20% of their fixed salary. Except for the possible consequences arising from the above, no changes to remuneration policy are anticipated in 2014.

VARIABLE REMUNERATION TARGETS FOR 2014

BNG Bank's mission is translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for its shareholders. The following 2014 variable remuneration targets were set in line with these objectives. For 2014 applies a market share target for lending to municipal and provincial authorities, housing associations and healthcare institutions (10% weighting factor) and a production target for lending in other sectors (10% weighting factor) as laid down in the 2014 annual plan. In addition, a return target (40% weighting factor) applies. Further to the quantitative targets, qualitative targets have also been set (40% weighting factor). These agreed 2014 targets concern facilitating the Asset Quality Review and the EBA/ECB stress test prior to transitioning to ECB supervision, submitting a detailed emission plan for the purpose of issuing hybrid Tier 1 capital and (measuring) customer satisfaction. The total costs must remain within the budget set for 2014. In early 2015 the Supervisory Board will assess the degree to which these objectives have been achieved. The resulting pay-out percentage ranges between a minimum of 0% and a maximum of 100%. In the event of a pay-out percentage of 0%, no variable remuneration will be paid. If the pay-out percentage is 100%, the variable remuneration for 2014 will be 25% of the fixed remuneration, except for the possible consequences of changes to the remuneration policy arising from new legislation. After the assessment half of the awarded variable remuneration for 2014 will be deposited into a frozen account. Following reassessment, this amount will be paid in January 2018, provided the achievement of the associated targets has not jeopardized BNG Bank's long-term continuity.

PERMANENT EDUCATION OF THE EXECUTIVE BOARD

All Executive Board members participated in the Supervisory Board's permanent education program. In 2013 one Executive Board member also hosted a study visit to Brussels and Frankfurt (which included the European Commission, the European Parliament and the ECB), took part in a three-day 'Circle Berlin' program and followed the 'Governance of financial institutions' course at the Governance University. A second Executive Board member attended the 'Management Digest' conference organized by The Economist and the annual 'Central Banker's Conference' organized by Nomura. A third Executive Board member attended 'Behavioral Governance', a PWC conference, and a congress on IFRS organized by EY. The educational activities undertaken were reported to the Supervisory Board and the resulting evaluations were discussed during the annual assessment interviews held by the Chairman and the Supervisory Board Secretary with the individual Executive Board members. The Supervisory

Board concluded that the Executive Board members meet the criteria set out in the Expertise Policy Rule of AFM and DNB.

SOCIAL ASPECTS OF ENTERPRISE

In the year under review, following a preparatory discussion in the Market Strategy Committee, the Supervisory Board was informed of and approved BNG Bank's intended policy for financing sustainable investments. The Supervisory Board furthermore approved BNG Bank's CSR policy which is published on bngbank.com. In the assessment of the bank's CSR policy the market shares and return on equityare the most important indicators. As a result of achieving the corresponding objectives in 2013 the bank has shown that it has effectively and efficiently accomplished its social mission. In the year under review the bank maintained classification A+ for CSR reporting under the Global Reporting Initiative guidelines (GRI G3), including certification by an external auditor. One objective set by the bank for 2014 is to report in accordance with the renewed GRI Sustainability Reporting guidelines (G4).

CONTACT WITH THE EMPLOYEES' COUNCIL

The Supervisory Board was represented at three of the five consultative meetings between the Executive Board and the Employees' Council. Among other things the bank's general business and the 2013 Annual Report (including CSR reporting) were discussed during these meetings. Once again, a themed meeting was organized in 2013 between the Supervisory Board, the Executive Board and the Employees' Council. The interactions with the Employees' Council are highly appreciated.

The Supervisory Board commends the Executive Board and staff for the results achieved in 2013. BNG Bank has commendably fulfilled its essential role in the public sector. ■

On behalf of the Supervisory Board

H.O.C.R. RUDING
CHAIRMAN

MRS. S.M. DEKKER
VICE-CHAIRMAN (AND SECRETARY)

The Hague, 7 March 2014

Report of the Executive Board

Introduction

The Executive Board views the financial year as satisfactory. The bank achieved almost all of its objectives in 2013. In addition to maintaining very high market shares in its core client sectors the bank achieved a good return for its shareholders.

BNG Bank posted a net profit of EUR 283 million for 2013. Despite a significant increase in its core result, the interest result, this reflects a decrease of EUR 49 million relative to 2012. The result financial transactions turned around from EUR 88 million positive in 2012 to EUR 5 million negative, due, among other things, to negative unrealized market value adjustments. In addition the bank took impairments on balance of over EUR 58 million. The BNG Bank proposes distributing 25% of profit after taxes, representing a dividend of EUR 71 million.

BNG Bank is the bank that serves the public interest and offers specialized services at the lowest possible costs. The bank strives to be a reliable partner, to retain its strong market position and to maintain and, where possible, further improve client relationships. Market shares remain high, confirming the importance of BNG Bank's role. The bank fulfilled around 70% of the total demand for long-term solvency-free lending from its core client sectors. New long-term lending totaled EUR 11.9 billion in 2013. The EUR 0.8 billion increase relative to 2012 was almost entirely attributable to the high demand for refinancing coupled with the bank's high market share. The total client long-term lending portfolio based on principal amounts rose by EUR 2.1 billion to EUR 83.2 billion in 2013.

In the year under review, Standard & Poor's lowered its rating for the State of the Netherlands by one notch to AA+, the second highest long-term credit rating, with a stable outlook. In the wake of the above, Standard & Poor's likewise lowered its rating for BNG Bank. The bank retained the highest possible ratings awarded by Moody's and Fitch. Investors continue to regard BNG Bank as one of the safest banks in the world.

For both refinancing and lending purposes, BNG Bank raised EUR 15.0 billion in long-term funding in 2013 (2012: EUR 15.2 billion). By tailoring the supply of securities as flexibly as possible to investor wishes, Investors regard BNG Bank as **one of the safest banks in the world.**

combined with the bank's excellent creditworthiness, the bank was able to attract the required funding on highly competitive terms. The availability of long-term funds at attractive prices improved due to increased confidence of the international capital markets in Europe, which consequently enabled the bank to strengthen its liquidity profile.

BNG Bank closely monitors developments in new laws and regulations. While these may be understandable, virtually all proposals directly or indirectly lead to a higher burden which, in turn, ultimately has implications for clients of banks. Loans will become more expensive and less available. Most implications for BNG Bank are due to additions and amendments to IFRS regulations, the new Basel regulations and the consequences of the European Commission's decision to vest European bank supervision with the ECB, the first step towards Europe's banking union. Furthermore the government's decision to impose mandatory treasury banking on the municipal and provincial authorities from the end of 2013 will eventually impact BNG Vermogensbeheer.

The interest result for 2014 is expected to turn out slightly lower than 2013, due to the persistently low long-term interest rates. In the immediate future too, the result on financial transactions will remain sensitive to the level of economic recovery in the Eurozone. In view of the uncertainties, the bank does not consider it wise to express an opinion on the level of its persisting net profit. ■

Strategy

BNG Bank is the bank of and for public authorities and public sector institutions. BNG Bank's specialized financial services help to minimize the cost of social provisions for the public. In this regard the bank plays an essential role in the public sector. BNG Bank's mission has been translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for shareholders.

This embodies the economic and social value of BNG Bank for society. The achievement of these objectives is deemed to reflect the degree to which BNG Bank's stakeholders perceive BNG Bank as a safe bank. Maintaining an excellent credit rating and retaining an excellent funding position as well as managing the bank's business as effectively and efficiently as possible are prerequisites in this endeavor. Solvency-free lending continues to be BNG Bank's core activity, with the municipal and provincial authorities, housing associations and healthcare institutions being the bank's key client groups.

For BNG Bank, maintaining substantial market shares means meeting more than half of the total long-term demand for solvency-free lending from the municipal and provincial authorities, housing associations and healthcare institutions. This reflects the bank's desire to achieve responsible growth. A reasonable return for shareholders translates to a net return on equity. Market shares in the core sectors are above – in some cases far above – target owing to the reticent attitude of the bank's competitors. The interest result is developing favorably. The policy pursued by the bank has allowed it to achieve profitable margins on its loan portfolio. BNG Bank is regarded as one of the world's safest banks and has been awarded triple A ratings by Moody's and Fitch and an AA+ rating by Standard & Poor's. These ratings are in line with those of the State of the Netherlands. If these ratings are to be maintained, the risks must be adequately controlled.

BNG Bank invests
in knowledge and expertise
to provide solutions to
public-private partnerships,
in turn creating **new opportunities**
for financing.

BNG Bank aims to enhance its role as an expert in financing public facilities in the years ahead. This strategy responds to the (changing) needs of the bank's core client sectors in pursuing government policy and providing tailor-made investment financing solutions. Although the crisis has caused an economic relapse, BNG Bank is taking account of a partial shift to non-guaranteed lending (subject to solvency requirements) for public-private partnerships, including infrastructure and also on behalf of housing in the care and education sectors, in the long-term. BNG Bank invests in knowledge and expertise to provide solutions to public-private partnerships, in turn creating new opportunities for financing such collaborations.

In 2010 the bank resolved to focus new lending activities entirely on the Dutch market and, with a view to managing credit risk, to enter into foreign lending only in special cases. The remaining lending to foreign clients accounts for less than 1% of the total loan portfolio. Investments in debt securities from European Union member states are entered into if they are in line with the bank's liquidity policy. In this context BNG Bank holds a portfolio of – mostly listed – debt securities from European Union member states. The policy was tightened in 2011 partly due to the new Basel guidelines. ■

ZWOLLE: STRIKING HOSPITAL SURROUNDED BY GREEN LANDSCAPE

SUSTAINABILITY AND QUALITY FEATURED PROMINENTLY IN THE CONSTRUCTION OF ISALA CLINICS IN ZWOLLE. THE ARCHITECTS UNDERTOOK TO DESIGN A BETTER HOME RATHER THAN SIMPLY A HOSPITAL. WHILST THE DESIGN OF THE HOSPITAL IS LARGE-SCALE, IT EMANATES A COMFORTABLE, SMALL-SCALE FEEL DUE TO THE DIFFERENT BUILDINGS. ITS ORGANIC ARCHITECTURE OFFERS ORIENTATION POINTS FACILITATING WAYFINDING FOR VISITORS. THE SURROUNDING GREEN LANDSCAPE IS ECHOED IN VARIOUS INDOOR GARDENS. BNG BANK WAS CLOSELY INVOLVED – AS A CONSORTIUM MEMBER – IN ARRANGING FINANCING FOR THE NEW HOSPITAL.

JEROEN MULDER, SENIOR MANAGER PUBLIC FINANCE, FOR THE NEW BUILDING

Financial review

RESULTS

BNG Bank posted a net profit of EUR 283 million for 2013. Despite a significant increase in the interest result, the core of the result, this reflects a decrease of EUR 49 million relative to 2012. The result financial transactions fell from EUR 88 million positive in 2012 to EUR 5 million negative, due, among other things, to negative unrealized market value adjustments. Th result was also affected by a change in the valuation method applicable to derivatives following changed market practice. In the year under review on balance the bank took impairments of EUR 58 million.

The 2013 interest result rose by EUR 57 million to EUR 530 million relative to 2012. The increase is attributable to the higher volume of and improved margin on the long-term portfolio. The relatively favorable development of the spreads which the bank was required to pay to obtain long-term funding had a positive effect on the margin in the financial year. The rise in the interest result was also brought about by a result of EUR 19 million on client and investor-initiated long-term loan buy-offs and buy-backs.

The result financial transactions was EUR 5 million negative in the financial year (2012: EUR 88 million positive). Effective this year BNG Bank began using the Overnight Index Swap (OIS) curve for the valuation of swaps which the bank uses to hedge interest and currency risks. Use of the OIS curve, which is compiled on the basis of daily interest rates, has now become adopted market practice. The OIS curve is also used to determine the interest fee for the collateral exchanged daily with the financial counterparties with which the swaps are concluded. The changeover to OIS valuation led to a non-recurring negative unrealized result of EUR 27 million.

The decreasing credit and liquidity risk spreads on loans and investments, including GIIPS countries, had a positive effect on the result financial transactions. This mainly accounted for a net unrealized result of

EUR 10 million positive for BNG Bank (2012: EUR 40 million positive) on interest-bearing securities and structured loans in the balance sheet item Financial assets at fair value through the income statement. The credit risk involved in client derivative transactions declined in 2013, resulting in an unrealized positive result of EUR 3 million (2012: EUR 11 million negative).

The result financial transactions from unrealized market value adjustments on transactions involved in a hedge accounting relationship amounted to EUR 41 million negative in 2013 (2012: EUR 27 million positive). This relatively large negative contribution is primarily attributable to the sharp rise in long-term interest rates in the last month of the financial year. Although the changed valuation of derivatives has increased the volatility of the bank's result on hedge accounting, the bank's hedge accounting still is extremely effective. The positive and negative results of hedge accounting will completely cancel each other out in the longer term.

The remaining portion of the result financial transactions was EUR 53 million positive (2012: EUR 32 million positive). This significant positive result is mainly attributable to the realized results on the sale of interest-bearing securities and the unrealized revaluation of derivatives which are not involved in hedge accounting.

The commission result for 2013 fell by almost EUR 1 million relative to the previous year. The rounded commission result posted in both years was EUR 25 million. The decline can largely be accounted for by the implementation of mandatory treasury banking for the municipal and provincial authorities at the end of 2013. Due to the decrease in assets under management the contribution to the commission result by BNG Vermogensbeheer fell to EUR 6 million.

The persistently unfavorable economic developments in the Dutch real estate sector also impacted the results of the BNG Gebiedsontwikkeling participations. The 2013 result from associates and joint ventures was EUR 1 million negative owing to the lower results forecast for the participations. The equity invested in several other participations was written down in full, amounting to an impairment of EUR 6 million. Furthermore in 2013 EUR 7 million in total was deducted from the incurred loss provision due to the settlement of two outstanding debts in the loan portfolio. In view of the development of a number of individual loans, the bank's incurred loss provision was raised by EUR 11 million to EUR 43 million.

As a consequence of the housing market crisis in Spain, BNG Bank resolved to take an impairment of over EUR 13 million for one securitization involving Spanish mortgage-backed securities. Two credit rating agencies withdrew their rating for this item while a third credit rating agency lowered its rating to CC, an exceptionally low level, as the provider of the underlying mortgages had been accused of fraud by the trust. The fraud was said to involve contributing mortgages which failed to meet the minimum criteria stated in the prospectus when structuring the securitization. IFRS regulations dictate that in the event of an impairment, items originally classified on the balance sheet as Financial assets available-for-sale must be written down at market value. The bank expects that the actual loss will be far lower and has therefore resolved to retain the securization for the time being. The exposures on the GIIPS countries decreased in the year under review by EUR 0.9 billion to EUR 3.2 billion, with investments in Italy in particular seeing a reduction. On the other hand, the 'non-investment grade' portion of these exposures increased by EUR 0.2 billion, and related primarily to exposures in Spain.

In the period under review, the bank recorded an additional impairment of EUR 28 million on its participating interest in Transdev-BNG-Connexxion BV (TBCH). TBCH was obliged by contract to buy the remaining 33% of the shares in Connexxion Holding NV from the Dutch State in early 2013 for the share price that had been paid in 2007 for a 67% shareholding, plus interest on the intervening period. The actual value of these shares was considerably lower due to developments in the transport market which have been occurring since 2007. Liberalization of the market, for instance, never completely got off the ground and competition has increased partly due to the arrival of a new provider affiliated with the Dutch state. The expected growth of viable concessions anticipated in 2007 never materialized as a result.

At EUR 64 million net consolidated operating expenses remained almost on par with those of 2012. The higher costs for hiring in external staff to support IT and other projects were offset by lower staff costs. In 2012 staff costs were relatively high due to the effect of a provision for the requisite reorganization of BNG Gebiedsontwikkeling.

THE BALANCE SHEET

The balance sheet total declined in 2013 by EUR 11.0 billion to EUR 131.2 billion. However, in the year under review loans and advances rose by EUR 1.4 billion to EUR 92.1 billion due to the growth of long-term lending to the bank's core clients. The item Financial assets available-for-sale rose by EUR 0.6 billion to EUR 9.6 billion, following further expansion of the liquidity portfolio. The decrease in the balance sheet total was mainly caused by the relatively sharp increase in long-term interest rates and the rise of the euro against the U.S. dollar. On balance the valuation of loans taken out in these currencies and the transactions effected for the purpose of eliminating currency and interest rate risks (mostly swaps) declined sharply as a result. The accounting effects are mainly reflected in the strong decline in the item Debt securities, and the items Other financial assets and Other financial liabilities. Another main reason for the decrease in the balance sheet total is a more active management of the balance sheet. Partly in the light of the bank levy and the leverage ratio the bank endeavors to limit the size of its balance sheet as far as possible without damaging client interests. The consequences of this approach are reflected in the decrease in cash and cash equivalents, funds entrusted and the items amounts due to and from banks.

In the period under review the bank's equity grew by more than EUR 0.6 billion to over EUR 3.4 billion. The rise is largely attributable to the net profit and the growing confidence in the euro, due to which currencies other than the euro are more readily available to European financial institutions. In particular the considerable tightening of the USD-EUR currency basis spread in the second half of 2013 led to an increase in the cash flow hedge reserve of EUR 401 million to EUR 332 million positive. The revaluation reserve rose by EUR 77 million to EUR 180 million positive partly due to the reduced credit and liquidity spreads of interest-bearing securities on balance in the Financial assets available-for-sale item.

BNG Bank's robust solvency position is reflected in its high BIS Tier 1 ratio, which continued to rise in 2013 to 24.3% as a result of the net profit coupled with the almost unchanged total of risk-weighted assets. The bank's leverage ratio likewise reflected a relatively strong increase in the period under review. As a result of the considerable decrease in the balance sheet total, the net profit and a regulatory change, the leverage ratio rose to 2.3%. Under the Basel III regulations, the amount of the revaluation reserve will be included step-by-step in the calculation of the leverage ratio in the next few years through to 2018. This does not apply to the cash flow hedge reserve although both reserves constitute unrealized value adjustments which, in principle, will not have any impact on the bank's net profit. When including the full amount of the revaluation reserve in the calculation, based on the Basel III regulations the leverage ratio equates to 2.4% at the end of 2013.

A dividend distribution
of 25% of profit
after taxes has been proposed.

PROPOSED PROFIT APPROPRIATION

For the year 2013 a net profit of EUR 283 million (2012: EUR 332 million) is available for dividend distribution and addition to the reserves. A dividend distribution of 25% (2012: 25%) of profit after taxes has been proposed. This amounts to a dividend pay-out of EUR 71 million (2012: EUR 83 million). The remainder will be added to the reserves. The dividend amounts to EUR 1.27 (2012: EUR 1.49) per share with a nominal value of EUR 2.50. ■

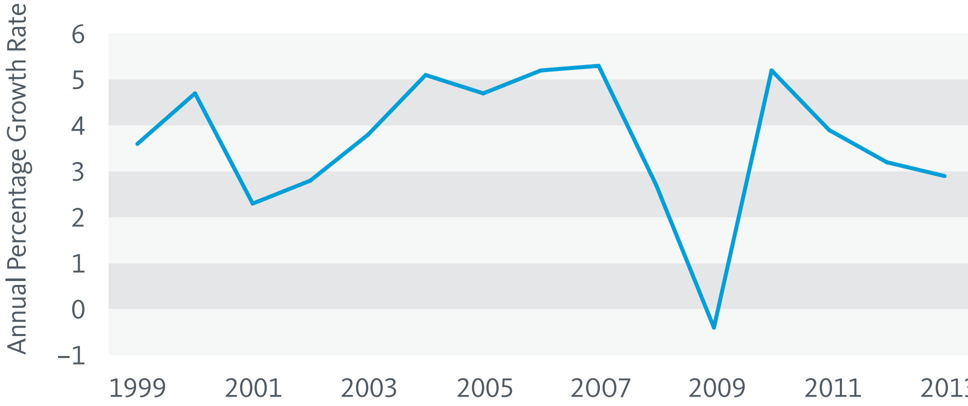
Developments

ECONOMIC DEVELOPMENTS

The world economy developed moderately in the wake of 2012. The graph below shows that the global economy grew by around 3% on average in 2013. The emerging economies developed favorably, particularly as a result of the robust expansion of the Chinese economy. The major Western countries recorded moderate growth in the year under review, except for the Eurozone, where economic activity contracted for the second year in a row.

DEVELOPMENT OF WORLD ECONOMY

Source: Macrobond



The U.S. economy recorded around 1.8% growth in 2013, one percentage point less than in 2012 on account of government spending cuts and a fall in the growth of exports. Inflation fell slightly to 1.5%.

Domestic demand in the Eurozone remained under pressure. Spending by households was lower due to a fall in disposable income arising from increased rates and taxes. Added to that, unemployment continued to rise partly due to the lower level of investments made by businesses, which was also caused by slackened export growth. Gross domestic product (GDP) fell by 0.4% in 2013. In the previous reporting year the Eurozone economy contracted by 0.7%. Partly due to lower energy prices and the declining effect of tax increases, inflation turned out over one percentage point lower at 1.3%. A slight improvement was seen in the state of government finances. The government deficit in the Eurozone declined from 3.7% of GDP in 2012 to 3.1% of

GDP in 2013, which is almost on par with the reference value of 3%. Gross government debt figures rose by three percentage points to around 96% of GDP. National government deficits therefore remained well above the maximum reference value of 60% of GDP.

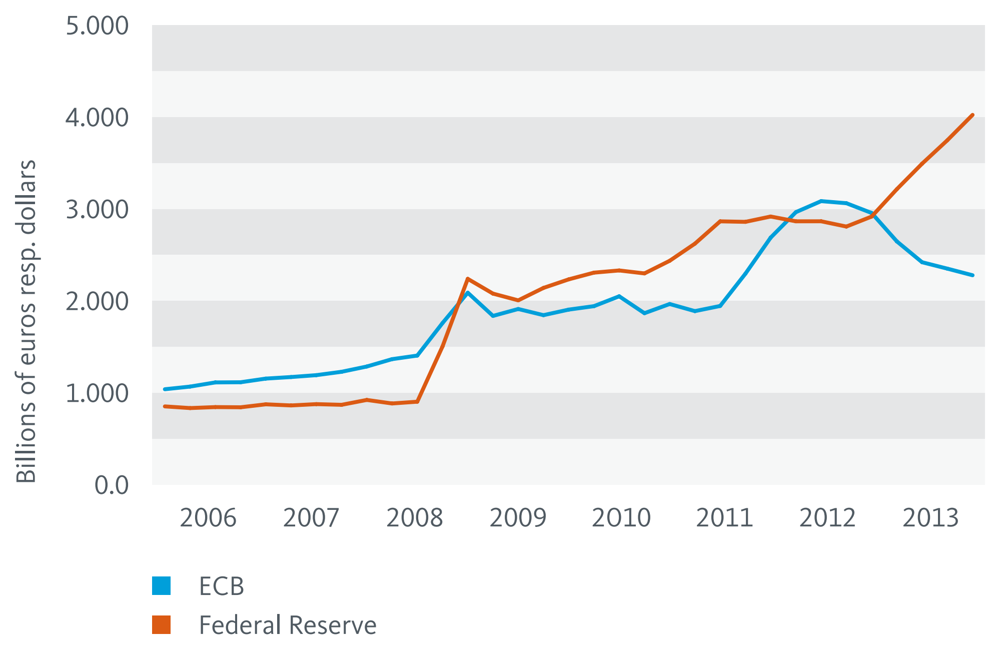
Once again, the central focus of reforms and cuts in government spending was in the economically weaker European countries. Business rationalization coupled with job losses caused domestic demand to fall. On the positive side of the coin, rationalization has helped to further improve the competitive position, spurring the recovery of exports in several euro countries in the course of the reporting year. In the relevant countries, however, the level of improvement proved insufficient to avert economic contraction. Germany was one of the few euro countries unaffected by the economic malaise. Europe's strongest economy recorded around 0.4% growth, followed by France with 0.2% economic growth.

The Dutch economy contracted by 0.8% in the year under review. Private consumption showed a stronger decline relative to 2012 caused by new increases in rates and taxes and a further fall in employment. Only exports rose, albeit moderately. Another bright spot was the housing market which showed signs of stabilizing in the course of 2013. Despite the economic recession inflation remained almost unchanged at 2.5%. The relatively high level of monetary depreciation was caused primarily by the upward price effects of government measures, including the raise of the upper VAT rate.

In the year under review the central banks continued to pursue a liberal monetary policy. The U.S. Federal Reserve bought USD 85 billion worth of U.S. treasuries and mortgage debts every month. On top of that the amounts released due to redemption were reinvested in the same securities. In 2013 this policy led to a further increase in the U.S. Federal Reserve's balance sheet total; see the graph below. Partly in view of the potential inflation risks of quantitative monetary easing in the longer term, in December 2013 the Federal Reserve resolved to start reducing the purchases. In 2013 the Federal Reserve maintained the federal funds rate – the Fed-targeted rate at which banks lend to each other – at 0 to 0.25%.

BALANCE SHEET TOTAL CENTRAL BANKS

Source: Macrobond



Against the background of the weak economic situation and the resulting decrease in inflationary expectations, the ECB lowered the interest rate once again. The refinancing rate was lowered from 0.75 to 0.25% in two steps. The decision was also taken to continue the unlimited allocation to refinancing operations until July 2015. Because banks had redeemed Long-Term Refinancing Operation (LTRO) loans, the ECB's balance sheet total decreased in the year under review.

In anticipation of the imminent tightening of U.S. monetary policy, long-term interest rates rose mainly in the United States in the course of 2013. Partly due to the increasingly clearer signs of economic recovery long-term interest rates likewise rose in the major euro countries while capital market rates fell elsewhere in the Eurozone. This was also attributable the ECB's willingness to buy short-term government loans – when deemed necessary – under the Outright Monetary Transactions program (OMT). A number of countries moreover made progress in putting their public finances in order. At the end of the year under review Ireland and Spain successfully implemented their reform programs. Both countries are expected to again be in a position to obtain their funding from the capital markets in 2014.

Financial and economic integration also progressed in the financial year. On 30 May 2013 the so-called Two-Pack reform package came into force, involving coordination of national governments' budgetary policy. The euro countries have an obligation to announce their medium-term budget plans and their economic growth and employment policy priorities no later than 30 April each year. Every euro country is subsequently required to publish their next year's budget on 15 October. The European Commission issues its opinion on 30 November, after which national budgets must be adopted by the end of the calendar year.

REGULATORY DEVELOPMENTS

As a consequence of the crisis, financial institutions are confronted with accumulating new laws and regulations. While this may be understandable, virtually all proposals directly or indirectly lead to a higher burden which, in turn, ultimately has implications for clients and banks. Loans will become more expensive and less available. Most implications for BNG Bank are due to additions and amendments to IFRS regulations, the new Basel regulations and the consequences of the European Commission's decision to vest European bank supervision with the ECB, the first step towards Europe's banking union. Aside from this, the government decision to impose mandatory treasury banking on the municipal and provincial authorities from the end of 2013 will eventually impact BNG Vermogensbeheer.

The implementation date of the IFRS regulations concerning the classification and valuation of financial instruments, i.e. the replacement of IAS39 by IFRS 9, was again deferred. At the end of 2013 the International Accounting Standards Board (IASB) announced that IFRS 9 would not become mandatory before 2017. Before setting a new deadline the IASB first aims to get broad support for its proposals. Based on the most recent amendments to the proposals, the bank still expects to be able to value the majority of its assets at amortized cost under IFRS 9. The amendments to the regulations on hedge accounting – recording hedged risk positions in the accounts – are expected to have a limited impact on the bank's results. The latest impairment proposal may have bigger implications for the volatility of the annual result. The loan loss provision is expected to turn out considerably higher because loans, on which no actual losses have been incurred but which do pose a significantly higher risk, will count more heavily in the loan 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 13 'Fair Value Measurement' took effect on 1 January 2013 and has resulted in a mandatory adjustment to the value of derivatives for which the bank has entered into agreements with the counterparty concerning the exchange of daily collateral requirements. These derivatives, which the bank uses for hedging currency and interest rate risks and therefore generally retains through to maturity, must, as of 2013 and in accordance with market practice, be valued based on the Overnight Index Swap (OIS) curve, which is compiled on the basis of daily interest rates (Eonia). The bank has adapted its systems, including hedge accounting, accordingly. As a result of OIS valuation the volatility of the annual results will increase slightly but structurally.

The regulations known as Basel III have meanwhile been transposed into the Capital Requirements Directive (CRD IV) and will be implemented in various stages between now and 2019. CRD IV consists of a Capital Requirements Regulation (CRR) and a Capital Requirements Directive (CRD). The CRR sets out EU rules that apply directly to institutions. The CRD sets out rules which must be implemented in national legislation. CRD IV is more comprehensive than Basel III and is still undergoing further development. Even though the text of CRD IV is final, the European Banking Authority (EBA) still needs to provide a technical explanation on what the rules mean exactly in many areas. There are numerous, comprehensive technical standards and due attention must be paid to monitoring these developments. In some cases it is not year clear whether the rules do or do not apply to BNG Bank, or the technical standards still need to be worked out in greater detail in subsequent years. The end of 2013 saw the publication of a lot of new regulations. The bank's business model and its corresponding scale means that it is becoming ever more challenging to continuously comply with all the new regulations.

The application of the leverage ratio in which capital and the balance sheet total are divided by each other without weighing the risk on assets will have the greatest impact on BNG Bank's business model. This will adversely affect the bank because the majority of its balance sheet consists of relatively large solvency-free loans (with a 0% risk weighting). The EBA has been asked to prepare an analysis by 2016 at the latest of how high the ratio should be due, in part, to the individual banks' different business models. The public sector character of BNG Bank is considered less risky. This will enable the bank to make a strong case toward the regulators and the central government to reiterate the negative impact of such a broad capital requirement on niche banks, such as BNG Bank. Partly in view of the current discussions in the Netherlands – in which the Minister of Finance has proposed a 4% minimum – the bank has assumed in its capital planning that the 3% minimum proposed under Basel will not be adjusted downward. In 2013 BNG Bank updated its plan for meeting the minimum standard set for the leverage ratio by the end of 2017 at the latest. The plan was made available to the Dutch Central Bank.

The application of the **leverage ratio** in which capital and the balance sheet total are divided by each other without weighing the risk on assets will have the **greatest impact** on BNG Bank's business model. This will **adversely affect** the bank because the majority of its balance sheet consists of relatively large solvency-free loans.

Many other sections of the CRD IV regulations could possibly affect the bank's business model but are certain to have major operational consequences. Examples of regulations that are not yet definitive are:

- Asset forbearance and non-performing exposures. This entails defining and distinguishing between transactions effected to avoid credit losses and the relationship of these transactions in recording credit losses. This includes monitoring the quality of loans and facilitating the comparison of credit quality among banks.
- Prudent valuation concerns an equity adjustment for the possible loss of value when selling financial instruments recorded at fair value on the balance sheet. Based on the current proposal, statistical techniques must be applied to determine possible value adjustments based on market information. If this proposal is adopted unchanged the bank will need to put a more extensive valuation process in place.

Along with the regulations arising from CRD IV, the European Securities and Market Authority (ESMA) has issued regulations for the central clearing of derivatives under the descriptor of the European Market Infrastructure Regulation (EMIR). This also concerns the central clearing of specific types of derivatives, new rules for non-centrally cleared derivatives and detailed reports to designated authorities. The bank has made substantial progress in setting up a central clearing system and this is expected to be fully operational this year.

In early October it became clear that BNG Bank is among the 128 banks that will fall under the direct supervision of the ECB within the framework of the Single Supervisory Mechanism (SSM), the first step towards Europe's banking union. Due to its relatively sizeable balance sheet the bank falls within the criteria for the first group of banks qualifying for European supervision. Yet BNG Bank's balance sheet can scarcely be compared with those of big banks. It has negligible client deposits and almost no mortgages on its balance sheet. The bank's credit risk profile moreover diverges strongly because the bank's Articles of Association restrict it to public and semi-public sector lending. No exception has been made, however, for public sector banks. BNG Bank received formal confirmation in early November 2013 that it will be subject to a 'comprehensive risk assessment' to audit the quality of its balance sheet.

The Asset Quality Review and the Stress Test will impose a significant burden on the organization in 2014. While we have confidence in the results of these audit exercises, at this point in time it is uncertain what the results will mean exactly for the bank's capital and loss provision. During the audit period no results will be communicated by the ECB. They will be communicated at the end of 2014 after which the ECB will take a final decision on which of the audited banks are to fall under its direct supervision. The initial preparatory phases already took place in 2013. In addition to providing quantitative data information on its loan portfolios BNG Bank explained its business model. The Asset Quality Review commenced at the beginning of 2014. The Stress Test is scheduled to take place during the summer months of 2014.

In December 2013 government leaders reached agreement on the Single Resolution Mechanism. This is the second stage of the banking union and regulates the settlement (resolution) of ailing banks in the future. If a bank has a capital shortfall, in the first instance the shortfall will be cleared by the shareholders and (a part of) creditors ('bail-in'). Only if this fails to adequately remedy the situation can the bank concerned seek financial aid from the resolution fund subject to certain conditions. The resolution fund will accumulate funds through mandatory contributions from the banks and will only reach its full size of EUR 55 billion in 2025. In the interim period the national governments and/or the European Stability Mechanism (ESM) will make available a bridging facility. The formation of the resolution fund will be set out in an intergovernmental agreement among the euro countries. In June of the year under review it had already been agreed to reserve a maximum amount of EUR 60 billion in the EMS for the recapitalization of banks.

At the end of 2013 the Treasury Banking Act ('Wet Schatkistbankieren') entered into force in the Netherlands. Under the Act the municipal and provincial authorities have an obligation to maintain their liquidity surpluses with the Dutch State Treasury Agency, which is part of the Ministry of Finance. The primary aim of treasury banking is to reduce the Dutch government's debt position. BNG Bank facilitates a daily automatic

BNG Bank facilitates a **daily automatic settlement with the treasury** for its clients, to the extent they have a liquidity surplus.

settlement with the treasury for its clients, to the extent they have a liquidity surplus. At the express request of the municipal and provincial authorities themselves, under the new regulation liquidity surpluses may also be utilized to fund other municipal and provincial authorities. During the legislative process BNG Bank highlighted the risks involved and asked that emphasis be placed on managing the attendant operational risks. Added to that, mutual lending raises concern about the pressure this may put on BNG Bank's lending volumes and margins. Lastly, BNG Bank called attention to the fact that the majority of municipal and provincial authorities do not hold liquidity surpluses, but that they have been charged with the added administrative burden of current accounts and payment transactions as a result of mandatory treasury banking. ■

Client developments

PUBLIC SECTOR

The current economic climate and budgetary developments pose serious challenges to municipalities. The financial risks are growing and their equity position is under pressure. The protracted economic downturn is causing more and more people to turn to the welfare system. Further write-downs are also being taken on land holdings. If policy remains unchanged, the pace of growth of municipal revenues is expected to be inadequate to maintain the current level of activity. The government's budgetary measures are impacting municipal budgets through the agreed system of standardization (also referred to as the principle of 'moving ahead together, moving back together' ('trap op, trap af-beginsel')). Furthermore in the social services domain, following the announcement of decentralization measures, additional extensive tasks have been assigned to the municipalities in the face of cutbacks on the corresponding funding. At the request of the Association of Netherlands Municipalities (VNG), Coelo, a Dutch research agency, published a report in September 2013 showing that the municipalities' total financial cutback targets amount to over EUR 6 billion for the period 2013-2017.

Persistent problems with land development again raise the prospect of further write-downs. During the period 2010-2012 municipalities wrote down EUR 2.6 billion on land holdings[16]. Moreover the value of projects that are still profitable was adjusted downward by EUR 0.7 billion. The losses are mainly due to the deferral of projects and the expected lower yields. The sale of land prepared for development has stagnated and land prices are under pressure despite the fact that in previous years municipalities had already phased out development locations and initiated redevelopment projects based on revised programs (less expensive to buy, more rentals). An analysis of future scenarios shows that new losses are also expected in the next few years, ranging from EUR 0.7 to EUR 2.7 billion, though most municipalities hold sufficient reserves to absorb the losses. Many municipalities have traditionally viewed revenues from land development as a reliable source of income. The losses incurred on land holdings raises the prospect that other areas of municipal policy will likewise be affected.

[16] Deloitte Real Estate, The Financial Situation of Municipal Land Development Authorities 2013 (in Dutch).

Pursuant to the Sustainable Public Finances Act ('Wet Houdbare Overheidsfinanciën'), which entered into force in December 2013, the local authorities are from now on required to contribute towards reducing the Netherlands' European Monetary Union (EMU) deficit. They must make agreements with the Cabinet for each government term. According to the current agreements the municipal and provincial authorities have an EMU deficit of 0.5% of GDP, which must be reduced to 0.2% in the next few years. During the parliamentary debate, the Cabinet pledged that the Act should ultimately not impede the necessary investments to be made by the local authorities.

In the social services domain the government plans to implement three major forms of decentralization in healthcare, youth and work. Preparations by the central government and the municipalities are well underway despite the ongoing discussion on feasibility and the budgetary consequences. The current plans dictate that from 2015 municipalities will be assigned responsibility for providing occupational therapy and assistance to the elderly and the disabled, in implementation of the Participation Act (Participatiewet) and for youth care. The decision was taken to earmark the funds to be made available for this purpose to ensure that they are in fact spent in the social services domain. According to an estimate made by VNG in November 2013, the municipal fund is set to grow as a result by at least EUR 8 billion to EUR 25.9 billion by 2015.

PUBLIC HOUSING

The Dutch government concluded an agreement with several opposition parties concerning housing market measures at the beginning of 2013. This involved the mitigation of several measures in the coalition agreement. Both the levy on housing associations – the levy housing associations in the regulated sector are required to pay on the value of rented housing from 2014 – and the maximum rent increases were lowered. The current situation on the housing market, and measures such as the housing association levy, impact housing associations' liquidity position and investment capacity. In anticipation of this development many housing associations implemented the maximum permissible rent increases. They are also cutting costs and carrying out restructuring programs. Aside from the above, many housing associations are revising their investment plans downward to help restore their liquidity position in the long term.

Given the importance of the financing and guarantee system for housing association sector financing, **BNG Bank endorses and supports initiatives** that help improve mutual trust within the system.

The coalition agreement states that housing associations must confine their activities to their core business: activities in the social rented housing sector, or Services of General Economic Interest (SGEI). However, the agreement the Federation of Housing Associations in the Netherlands (Aedes) concluded with the Minister of Housing in 2013 states that – under certain conditions – housing associations may continue to develop activities unrelated to the social rented housing sector (the so-called non-SGEI activities). It is not yet known exactly what activities are permitted and what preconditions are attached. In the long term, from an accounting and legal point of view SGEI activities must, however, be separated from non-SGEI activities. This is set to spur growing demand in the long term for financing that the Social Housing Guarantee Fund (WSW) will be unable to guarantee. BNG Bank will continue to grant credit facilities to housing associations, both now and in the future, within its possibilities and within the new preconditions. A committee was established to answer the question 'How can the role of institutional investors (pension funds and insurers) be expanded in financing housing associations', which was raised by the relevant member of government. BNG Bank is also represented on the committee and in this forum strongly advocates solutions for making credit more readily available for non-WSW guaranteed activities.

The relationship between municipalities and housing associations also forms part of ministerial policy. The coalition agreement originally stated that the housing associations would fall under direct municipal control. It has meanwhile been announced that control will not be hierarchical. However, municipal public housing policy will to a greater extent determine the tasks to be carried out by housing associations in the relevant municipality. How information on the position of municipalities in providing counter-guarantees to the WSW can be improved is currently also being examined. This will be conducive to building trust among the housing associations and the parties providing counter-guarantees. Given the importance of the financing and guarantee system for housing association sector financing, BNG Bank endorses and supports initiatives that help improve mutual trust within the system.

Various incidents in the housing association sector have signaled that governance and supervision are areas that require due attention in that sector. The current version of the amended Housing Act ('Woningwet') contains several proposals for modifying both internal and external supervision. It was furthermore decided that the responsibility for external financial supervision would fall to the government minister, that the WSW would be assigned a more extensive role during restructuring programs and that both directors and internal supervisors must undergo a periodic 'fit-and-proper-test'.

HEALTHCARE SECTOR

In 2013 the consequences became clear of the system reforms implemented by the government in the curative sector in recent years. Hospitals have noticed that health insurers have taken up their new role in the radically changed healthcare landscape. Contract negotiations are proceeding slowly, with health insurers imposing more stringent requirements on price and quality in the procurement of healthcare. The government and parties in the field have made agreements to curb the growth of healthcare expenditure. In July 2013 a national average growth percentage of 1.5% for 2014, and 1.0% for the years 2015-2017 was agreed for medical specialist care and mental healthcare. A higher growth percentage applies to general practitioners if they demonstrably deal with secondary care. The lower growth percentage has spurred hospitals to raise their efficiency and quality levels. Moreover a greater concentration of complex care is envisaged, the quality and costs of healthcare will become more transparent and access to insured entitlements will be tightened.

In this respect, health insurers are increasingly focusing on quality. If it were up to the health insurers, complex emergency hospital care would soon be overhauled. This is entirely in line with government policy, which seeks to concentrate and decentralize healthcare. Government policy requires hospitals to specialize more in specific treatments while specifically leaving other treatments to different institutions. The aim is to raise the quality of healthcare while at the same time reducing healthcare expenditure. Hospitals still strongly oppose these measures because it is not yet clear what the financial consequences will be.

The accumulating policy measures has posed problems for hospital accounting systems in respect of determining revenue. As a result, auditing firms have indicated that they are unable to issue an unqualified independent auditor's report on various hospitals' 2013 financial statements. With revenues turning out lower due to the new methodology a major number of hospitals have made use of a transitional arrangement. Apart from the methodology, healthcare production is equally under pressure. Hospital visits have declined for the first time in years. According to current views, this is primarily attributable to the economic situation. A higher own risk has been set to further discourage healthcare consumption.

Credit risks in the healthcare sector have increased. As a result of the major reforms in funding the healthcare system, the government has transferred its risks to banks and health insurers. Another aspect of the system reforms is that advance financing by health insurers no longer is a matter of course. The support from now on being sought from the banks will constrain banks' capacity to finance healthcare real estate. Under the current system healthcare institutions could go bankrupt partly because government support will no longer apply in all cases. Against this background BNG Bank has concerns about the financeability of the healthcare sector (by banks). The sector is served by a handful of Dutch banks which have seen credit demand rise strongly in recent years. In view of the risks, the required financial resources are no longer automatically available from banks. BNG Bank has asked that the relevant government members, among others, look into this.

The bill enabling profit distribution in the hospital care sector is under consideration by the Dutch Parliament's Lower House. The government additionally wants to offer health insurers an opportunity to acquire a minority interest in hospitals. In reforming long-term care and nursing care the government is undertaking to improve the quality, affordability and sustainability of healthcare too. The separation of housing and care is being implemented in practice by tailoring care more, closer collaboration among the relevant parties, bringing care closer to citizens and through sustainably funded provisions.

The Exceptional Medical Expenses (Compensation) Act (AWBZ) will be scaled back to a new national provision for the handicapped and the elderly, and limited to the relatively high-intensity care cases. In reforming the AWBZ, the government had initially hoped to achieve spending cuts of EUR 4 billion. The amount largely consisted of cutbacks on domestic care to derive efficiency savings by transferring tasks to the municipalities. In the course of 2013 it became clear that more time was needed to implement the separation of housing and care. The government reached a political agreement on long-term care in April 2013. The agreements made concern the Collective Labor Agreement for the Healthcare Sector and the conditions for the planned decentralization of care tasks from the central government and the provinces to the municipalities.

OTHER CLIENT SECTORS

BNG Bank regards the financing of public authorities, housing associations and healthcare institutions as its core business. The bank also provides funding to education institutions and private companies in which public authorities directly or indirectly hold at least 50% of the share capital, mainly energy networks, water supply companies and waste treatment companies.

Waarborgfonds BVE, a guarantee fund, guarantees lending to the vocational and adult education sector. In the past year the fund was faced with several institutions who were in financial difficulty. A contribution from the central government helped to resolve the issue, serving to demonstrate that the central government fulfilled its constitutional duty of care for education in the Netherlands. Effective January 2013 the mandatory membership of Waarborgfonds HBO, a guarantee fund for higher professional education institutions ceased to apply. Waarborgfonds HBO's background is similar to that of Waarborgfonds BVE. The cessation of mandatory membership for an institution is contingent on either the redemption of all of the institution's guaranteed loans or conversion of these loans into non-guaranteed loans. Barring a few loans this process has been finalized. Waarborgfonds HBO will be liquidated when these loans have been converted.

Several years ago an Act entered into force that required the Dutch energy companies to split up their network companies and production and supply companies into separate legal and economic entities. The network companies were required to remain in government hands. The operation of the Act, however, has been deferred for some years now due to a Supreme Court of the Netherlands decision. Following the decision, the two energy companies which had not yet been split up discontinued the split-up process. Internally, however, their network activities are completely separated from their other activities. In response to questions from the Supreme Court, the European Court of Justice ruled that splitting up the energy companies is consistent with European law but only if the public interests are large enough. The Supreme Court of the Netherlands will respond with its decision in due course. Strict rules concerning financial ratios and the permissible return apply to network companies.

Public ownership and control over the water supply companies is set out in the Drinking Water Act (Drinkwaterwet). Similar to the regulations applicable to the energy network sector, strict rules concerning financial ratios and the result to be achieved equally apply to the water supply sector. The Administrative Agreement on Water defines the framework for closer collaboration with the municipalities and water boards in the water supply chain. The goal is to achieve efficiency gains across the entire supply chain of EUR 750 million each year by 2020.

Waste policy in the Netherlands focuses on prevention, recycling or efficient use. Most waste incineration plants are government-owned. Domestic waste incineration overcapacity at Dutch plants is currently being utilized to incinerate waste imported mainly from the United Kingdom, where waste disposal is subject to legal restrictions and insufficient incineration capacity is available. Waste treatment companies are investing in biofermentation plants for vegetable, fruit and garden waste. The products created after waste incineration and biofermentation (heat and power) make a significant contribution to the CO_2 emissions reduction targets and local sustainability targets. ■

Products and services

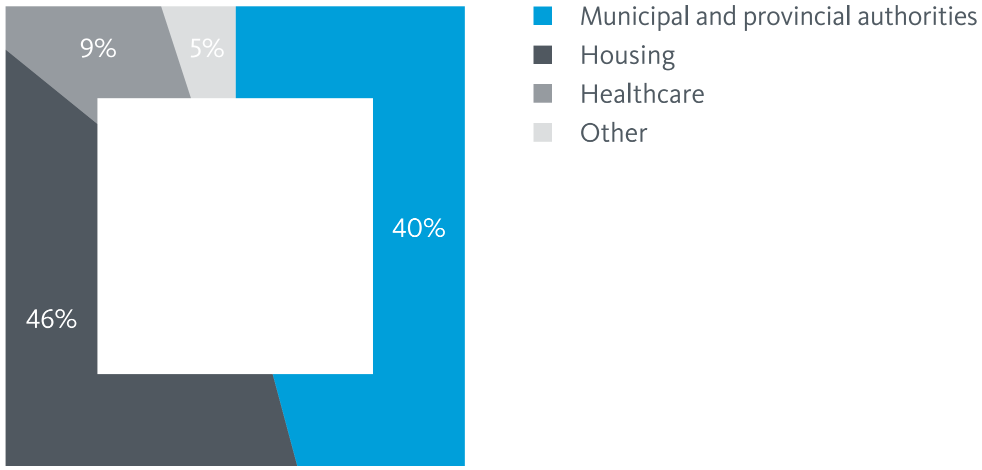
Lending is and remains the bank's core activity. BNG Bank also provides payment services, consultancy services, participates in area development initiatives and offers sustainable investments in line with the Local and Regional Authorities Financing Act ('Wet Fido'). The bank's main products and services are described in its corporate brochure, which is published on the bank's website (bngbank.nl).

LOANS AND ADVANCES

One of BNG Bank's strategic objectives is to be able at all times to meet the demand for credit from government authorities and public sector institutions. Despite the difficult economic conditions in recent years and the resulting squeeze on the availability of funds, the bank has succeeded in continuing its lending activities without interruption. Due in part to the reticent attitude of the bank's competitors since the start of the current crisis, BNG Bank's market shares in all sectors have remained stable at very substantial levels in the past few years.

New long-term lending totaled EUR 11.9 billion in 2013. The graph below shows a breakdown of the key sectors. The EUR 0.8 billion increase relative to 2012 was almost entirely attributable to the high demand for refinancing from the municipal and provincial authorities sector, coupled with the bank's high market share. The demand for credit for new investments in this sector is extremely low due to the persistently unfavorable economic developments and the budgetary challenges facing the sector with their expanded range of duties. In the public housing sector – as expected – demand for the refinancing of guaranteed loans and advances was high. At EUR 5.4 billion new long-term lending to this sector lagged somewhat behind the bank's forecast, particularly in the very long-term loan segment. In 2013 new lending to the healthcare sector fell slightly compared with 2012. The higher concentration risk in the bank's portfolio arising from the relatively high turnover in recent years has led the bank to be reticent in meeting healthcare sector demand for credit subject to solvency requirements. Total lending subject to solvency requirements across all sectors nonetheless rose by EUR 0.1 billion to EUR 1.2 billion. With the regulations for non-social housing (non-SGEI) having been defined in detail in 2013, cautious demand for credit subject to solvency requirements is arising from housing associations. The demand for lending subject to solvency requirements from municipal and provincial authorities remained marginal partly on account of the unfavorable economic outlook.

NEW LONG-TERM LENDING 2013



The total client long-term lending portfolio based on principal amounts rose by EUR 2.1 billion to EUR 83.2 billion in 2013. Despite the low credit demand for new investments, the total portfolio increased due to the bank's higher market share in the demand for solvency-free refinancing from its core clients, and the disbursement of loans in 2013 contracted in previous years. The average volume of short-term lending to clients increased by EUR 0.2 billion to EUR 5.2 billion relative to 2012. The extremely low interest rates in the short-term lending segment make it particularly attractive for municipal and provincial authorities to obtain short-term funding.

PAYMENT SERVICES AND E-BANKING

BNG Bank's products and services enable clients to organize and manage their payments and liquidity efficiently. A pivotal role in these services is played by the 'Mijn BNG Bank' ('My BNG Bank') web portal. A key component of this portal is the electronic banking module 'BNG Betalingsverkeer' ('BNG Payment services'), which enables BNG Bank's clients to process their payments quickly and securely via the Internet. The module 'BNG Treasury' provides treasury management support to clients. In 2013, further steps were taken in the development of the European payment market, the Single Euro Payments Area (SEPA). BNG Bank adapted its products accordingly. Bank transfers and direct debits in the Netherlands must be processed in accordance with SEPA guidelines no later than 1 August 2014. BNG Bank assists its clients in preparing for the change in time. Following the launch of treasury banking in mid-December 2013, BNG Bank assists local authorities by automatically transferring excess liquidity to the treasury, on request. BNG Bank was able to retain its strong position in payment services in the year under review. The bank also smoothly processed the flows of funds between the central government and local authorities, the so-called ‘Rijksverrekening’ (‘State settlement’) in the past year.

ASSET MANAGEMENT

BNG Vermogensbeheer focuses on asset management for public sector institutions. Assets under management declined from EUR 6.4 billion to EUR 5.1 billion in 2013, mainly due to the mandatory outflow of investments by local authorities under the mandatory treasury banking regime. BNG Vermogensbeheer invests chiefly in European investment grade bonds for both individually tailored investment portfolios and investment funds. Sustainable investments and sustainable portfolios lead to satisfying solutions – and returns – for clients. BNG Vermogensbeheer works with specialized institutions for the purpose of making sustainable investments.

AREA DEVELOPMENT

BNG Gebiedsontwikkeling realizes spatial planning projects by taking a risk-bearing interest in such projects and deploying operational planning management capacity. BNG Bank’s subsidiary works closely with the government parties concerned, taking account of public interests. Risk sharing and limitation structures are set up such that the control of the relevant public or semi-public organization is not impaired. At the end of 2013 BNG Gebiedsontwikkeling participated in 22 joint ventures. Two participations were wound down in 2013. BNG Gebiedsontwikkeling employed 16 people at the end of 2013. The company is feeling the effects of the economic crisis. In the year under review only in a few projects under development sales were realized. Despite some positive signs, it is not clear at present how the market will develop in the years ahead. Given these uncertainties and the current situation, the policy maintained with respect to entering into new participations can be characterized as extremely cautious. In the year ahead – just as in the year under review – focus will mainly be placed on managing the existing portfolio.

CONSULTANCY

In an ever more complex environment, the bank’s clients are increasingly facing issues in which multiple interests must be combined, and the inherent risks are higher. Clients are required to perform and implement an ever growing number of tasks with fewer funds. This requires innovative solutions and well-considered decision making. BNG Advies supports clients in finding such solutions in areas including financing, treasury, risk management and public-private partnerships. For a range of target groups, including administrators and directors, BNG Advies organizes periodic training programs and master classes covering topical financial and other subjects. ■

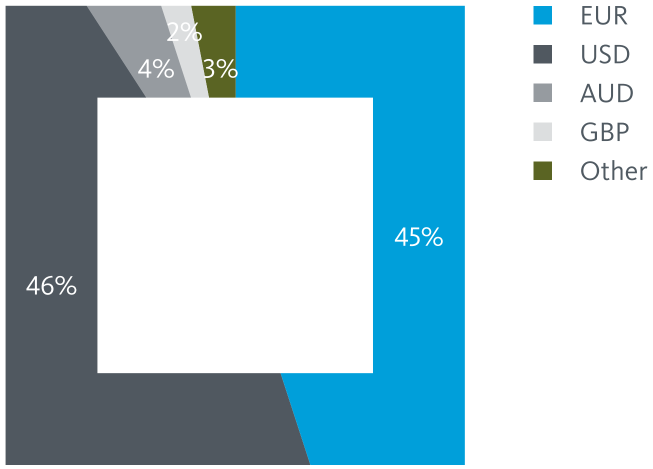
Funding

BNG Bank's long-term funding is largely carried out by issuing bonds under the standardized EUR 90 billion Debt Issuance Program. The bank raises loans in various currencies, with terms and conditions tailored to the needs of both institutional and private investors. By tailoring the supply of securities as flexibly as possible to investor wishes, combined with the bank's excellent creditworthiness, the bank was able to attract the required funding on highly competitive terms.

The availability of long-term funds at attractive rates improved due to increased confidence on the international capital markets in Europe, which consequently enabled the bank to strengthen its liquidity profile. With high-risk aversion declining, the flight to quality from which BNG Bank was able to benefit in previous years largely faded away. This was mainly reflected in the decline of highly attractive terms for short-term financing.

For both refinancing and lending purposes, BNG Bank raised EUR 15.0 billion in long-term funding in 2013 (2012: EUR 15.2 billion). The weighted average maturity of total long-term funding remained virtually unchanged at 6.6 years relative to 2012. In the year under review the bank issued bonds in nine different currencies. The currency and interest rate risks of these issues are fully hedged. The share of U.S. dollar issues was high at 46% in 2013, which was founded on the liquidity premium for the U.S. dollar against the euro, the so-called USD-EUR cross currency basis spread. This was most favorably priced, particularly in the first half of 2013. In addition primarily bonds were issued in euros (45%). The graph below contains a complete breakdown by currency for 2013.

NEW LONG-TERM FUNDING 2013, BREAKDOWN BY CURRENCY



Each year the bank issues a number of benchmarks to ensure that BNG yield curves in euros and U.S. dollars continue to be available to institutional investors. In 2013 BNG Bank issued eight benchmark loans in euros and U.S. dollars, with amounts varying in volume between 1.0 and 1.75 billion. The euro equivalent of the total amount issued in benchmark loans was EUR 8.9 billion (2012: EUR 9.3 billion).

HEERHUGOWAARD: SUSTAINABLE RENOVATION OF SOCIAL HOUSING

WOONWAARD, A SUBSIDIZED RENTAL HOUSING ASSOCIATION AND A BNG BANK CLIENT IN THE PROVINCE OF NORTH HOLLAND, EXEMPLIFIES SUSTAINABLE AND INNOVATIVE RENOVATION. WOONWAARD INNOVATIVELY STRIPPED DOWN, RENOVATED AND INSULATED A FIVE-STORY APARTMENT COMPLEX IN HEERHUGOWAARD. THROUGH SUPPLY CHAIN COLLABORATION, IN WHICH THE CLIENT AND CONTRACTOR WORKED CLOSELY TO FIND THE RIGHT, ENERGY-EFFICIENT SOLUTION, 50 APARTMENTS DESIGNATED AS ENERGY LABEL F/G WERE CONVERTED INTO 40 ENERGY LABEL A APARTMENTS IN A SHORT SPACE OF TIME.

SELMA HUIZER, SENIOR MANAGER PUBLIC FINANCE, AMID SOLAR PANELS ON THE RENOVATED APARTMENT BUILDING

Corporate governance

DUTCH CORPORATE GOVERNANCE CODE

The Dutch Corporate Governance Code sets out principles and best-practice provisions for good corporate governance. The bank adheres to the principles stipulated in the Code, while duly observing the statutory two-tier rule ('structuurregime') provisions insofar as they affect a company's corporate governance structure. The regulations, codes, schemes and reporting procedures used at BNG Bank are consistent with the Code. A separate section on corporate governance can be viewed on bngbank.nl.

There is only one area in which the bank does not follow the Dutch Corporate Governance Code. BNG Bank has not implemented the distance voting recommendation. Given the nature of the bank and the origin of its shareholders, the bank does not deem this necessary. The bank highly values direct contact with shareholders. In recent years, the shareholders' representatives attending the General Meeting of Shareholders represented – on average – approximately 60% of the bank's share capital. Due to the fact that the shareholders are also clients, frequent contact already exists between the bank and its shareholders' representatives. The powers of control at the shareholders' meeting are proportionate to the level of contributed capital. Pursuant to the Articles of Association, the bank may not cooperate with the issue of depositary receipts for shares.

DUTCH BANKING CODE

The Dutch Banking Code contains principles that are in line with the Dutch Corporate Governance Code. BNG Bank complies with the Dutch Banking Code. On bngbank.nl BNG Bank has rendered an account of how it has implemented the principles of that Code. The rules, codes, regulations and reporting procedures to which it refers are also published on the website. This equally applies to the integral remuneration policy for Executive Board members, senior management and other bank employees. The account on the website relates to the organization and existence of the measures taken. Information on the operation of these measures is reported in various sections of this Annual Report; please refer to the reference table in Appendix B.

The bank deviates from the Dutch Banking Code on one point: principle 6.4.3 (variable remuneration based on individual performance). No individual targets are set for the Executive Board members. The Executive Board Rules of Procedure set out that the Executive Board members are jointly responsible for the performance of the Executive Board's collective duties. Each member is accountable for performing this responsibility. In view of the provision concerning a collegiate board (whose members may where necessary deputize for each other), the desire to avoid high-risk conduct on the part of the individual executives, and BNG Bank's size, the Supervisory Board deems it unnecessary at present to develop a policy providing for assessment of the performance of the departments falling under the responsibility of the individual Executive Board members.

REGULATION ON A CONTROLLED REMUNERATION POLICY

The Regulation on a Controlled Remuneration Policy under the Financial Supervision Act 2011 relates to how financial enterprises adopt and apply remuneration policy to employees whose duties have a material influence on the risk profile of the financial institution. BNG Bank has implemented the principles in its remuneration policy in a manner and to an extent that reflects the bank's size and internal organization, as well as the nature, range and complexity of its activities. The bank provides an account of its implementation of these principles on bngbank.nl. In 2013 the bank further improved compliance with the regulations in a number of areas. This mainly concerns the analysis of Identified Staff and the duties and responsibilities performed by control functions.

IN CONTROL STATEMENT

Due attention is paid to BNG Bank's internal risk management and control systems. These systems are structured in accordance with the regulations arising from the international guidelines issued by the Basel Committee on Banking Supervision (BCBS), which BNG Bank has set out in an internal Risk Appetite Framework. The framework applies to all the risks identified by the bank. As part of the framework, the Risk Appetite Statement describes the risks which the bank desires 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 statements' the department heads and managing directors focus on risk management in relation to the bank's risk appetite. They also set out in the 2014 annual plans how they aim to fulfill 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 Dutch Central Bank.

Audits by the Internal Audit Department focus on independently determining the proper 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, insofar as they are relevant to auditing the financial statements. The auditor's findings are reported in the auditor's report and the management letter to the Executive and Supervisory Boards. The internal and external auditors attend the meeting of the Audit & Risk Committee, the Supervisory Board and the Plenary Supervisory Board meeting at which the financial statements are discussed.

The bank's risk management and control systems performed effectively in the year under review, and provide a reasonable degree of assurance that the financial reports contain no inaccuracies of material significance. These systems are in themselves, of course, incapable of providing absolute certainty about the achievement of the company's objectives and the prevention of all errors, instances of fraud and violations of laws and regulations. There are no indications that the risk management and control systems will not function effectively in 2014. ■

Corporate social responsibility

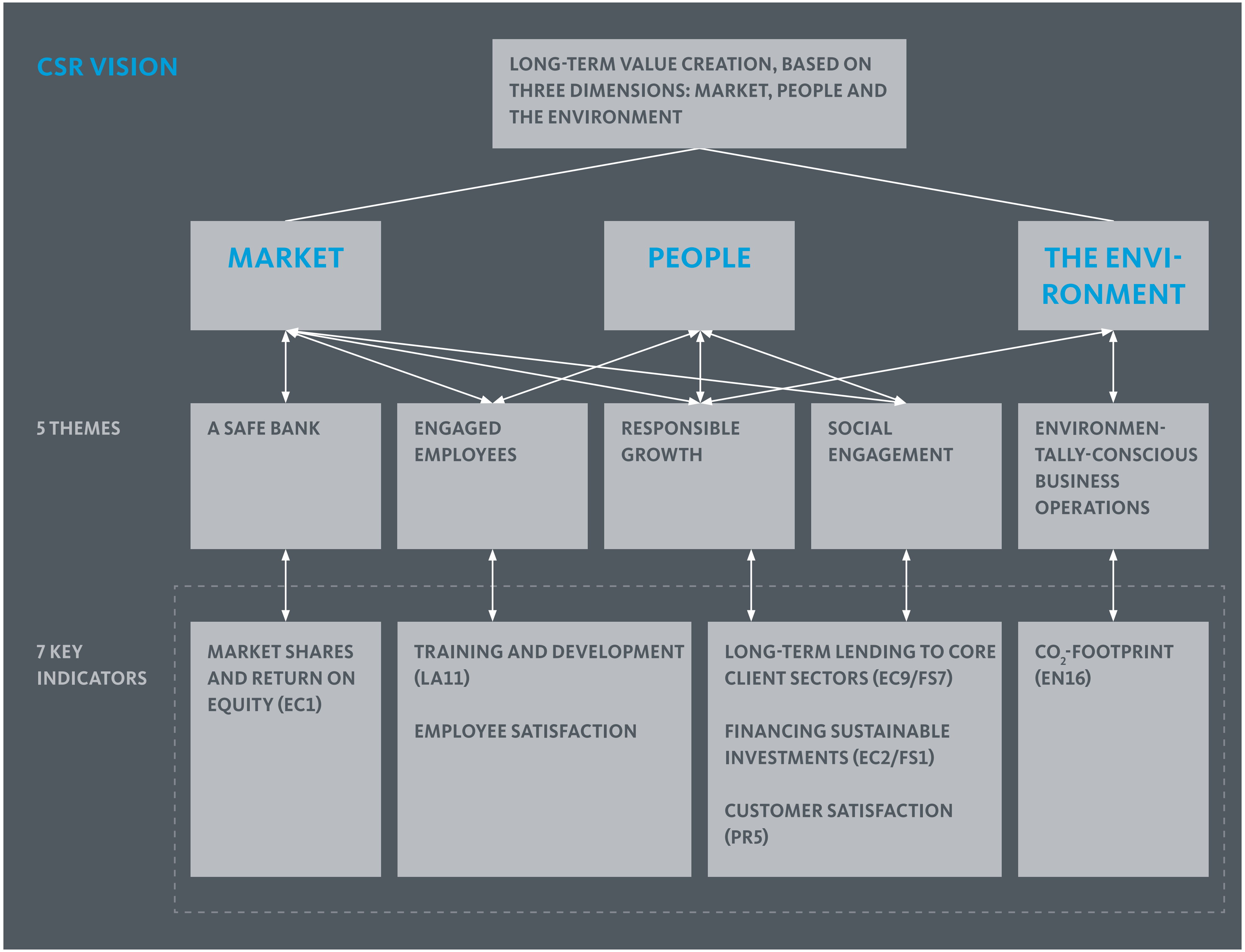
Throughout its 100-year existence (1914 – 2014) BNG Bank's public role has largely been determined by the degree to which the bank has achieved its key objective. The objective which, with minor modifications to wording, endures to date: to minimize the cost of social provisions for the public by providing loans to public authorities, and public and semi-public institutions on competitive terms. Not only was it the bank's duty to ensure low rates and reasonable dividend payments, but it moreover remained open for business in difficult economic times. BNG Bank's direction will remain unchanged in the years ahead.

BNG Bank subscribes to the Social and Economic Council of the Netherlands' (SER) definition of CSR: consciously focusing business activities on the longer term and on value creation in three dimensions: People, the Environment and the Market. For BNG Bank this broader vision was shaped by the role it fulfills as a financial institution in Dutch society with respect to the policy pursued by its clients. BNG Bank's CSR policy contains further information on the bank's CSR vision, the value chain and the bank's chain responsibility, the stakeholders and the stakeholder dialog, the materiality analysis, the management approach to CSR and how the relevance of CSR is incorporated in BNG Bank's CSR policy.

BNG Bank desires to adopt and support the sustainability objectives of its stakeholders. After consulting with employees and clients in 2010, the manner in which the bank aims to add value to People, the Environment and the Market was elaborated in five themes as shown in the diagram below and presented to stakeholders in 2011. The themes are:

- A safe bank: BNG Bank stands for reliable banking with added value for society.
- Responsible growth: through its services, BNG Bank serves the interests of its clients in the public and semi-public sectors and hence indirectly the interests of the Dutch public.
- Engaged employees: the bank invests in the development of its employees and values an open culture.
- Environmentally conscious business operations: BNG Bank develops measures to push further improvement of operations.
- Social engagement: BNG Bank demonstrates this in various ways. This includes representing client interests and promoting art and cultural programs.

The themes a safe bank, responsible growth and engaged employees are the most material.



As regards the theme of responsible growth, particular attention was paid to **the manner in which sustainability can specifically be implemented** in the bank's lending activities.

The bank continued to make progress on these themes in 2013. As regards the theme of responsible growth, particular attention was paid to the manner in which sustainability can specifically be implemented in the bank's lending activities. Against this background, a key performance indicator was added in 2013: 'financing sustainable investments'.

The bank's key figures, together with detailed explanatory notes are posted on bngbank.nl. In its GRI Index BNG Bank reports further on indicators relating to the CSR themes selected in accordance with the GRI 3.1 guidelines, application level A+. This index presents the bank's achievements in 2013 or refers the reader to the location of the relevant information.

BNG Bank's assumption is that its strategy will remain unchanged in the next three to five years. The objectives it has set among other things for the CSR key performance indicators therefore remain in line with those of the preceding years. Achievement of the 2013 objectives and the 2014 objectives chosen for the themes having the greatest relevance for the business are shown in the diagram below. The objectives are then explained in the relevant sections of text, first of all under the themes relevant to the business. The 2013 BNG Bank GRI Index and the memorandum on BNG Bank's 2013 CSR Policy form an integral part of this Annual Report and can be viewed on bngbank.com.

2013 OBJECTIVES	ACHIEVEMENT OF 2013 OBJECTIVES	2014 OBJECTIVES
A SAFE BANK		
Substantial market shares: profitability in more than 50% of total long-term demand for solvency-free credit from the municipal and provincial authorities, housing associations and healthcare institutions.	Achieved: 72%	The objective for 2014 and subsequent years is the same as that of 2013.
Return on equity: 8% minimum.	Achieved: 10.4%	Return on equity: 8%
Achieving a high degree of transparency in the bank's annual reporting to be demonstrated by the bank maintaining a ranking in the highest category of the Transparency Benchmark.	Achieved: 186 points out of a maximum of 200 were achieved, (ranked 16th)	No specific objective.
Integrated Annual Report in accordance with the GRI 4 guidelines.	Not achieved due to prioritization. Integrated 2013 Annual Report based on GRI 3.1 guidelines, application level A+.	Integrated 2014 Annual Report in accordance with the GRI 4 guidelines.
RESPONSIBLE GROWTH		
Portfolio of long-term loans to municipal and municipal authorities, housing associations, healthcare and education institutions: > 85% of BNG Bank's long-term loan portfolio.	Achieved: 95%.	The objective for 2014 and subsequent years is the same as the 2013 objective.
Development of loans to finance the roll-out of solar panels on housing association homes and making accommodation more sustainable.	Achieved as part of financing sustainable investments.	Loans to finance the roll-out of solar panels on housing association homes and making accommodation more sustainable.

2013 OBJECTIVES	ACHIEVEMENT OF 2013 OBJECTIVES	2014 OBJECTIVES
More precisely identify the long-term credit for sustainable investments.	Achieved: over EUR 500 million of portfolio project financing.	
Customer satisfaction. The most recent survey was conducted in 2012.	No objective.	2014 customer satisfaction survey: score above the industry average.
ENGAGED EMPLOYEES		
Continue the development programs aimed at broadening and deepening relevant know-ledge among employees.	Achieved.	Organizing internal meetings to share knowledge.
Measures for further increasing efficiency and collaboration.	Achieved.	Optimum deployment of quality staff and staffing levels.
Implementation of the coaching-oriented leadership development program.	Not achieved. The objective was adjusted.	Identify opportunities for sharing knowledge internally/internal work placements together with managers.
Measures following analyses of sustainable employability and mobility.	Achieved.	Promote collaboration among managers. Devote attention to employee adaptability and flexibility on a more regular basis.
Employee satisfaction: The most recent survey was conducted in 2012. The next survey is scheduled for 2015.		No objective for 2014.

2013 OBJECTIVES	ACHIEVEMENT OF 2013 OBJECTIVES	2014 OBJECTIVES
ENVIRONMENTALLY CONSCIOUS OPERATIONS		
CO_2 emissions at the same level or lower than 2012.	Achieved.	CO_2 emissions in 2014 at the same level or lower than 2013.
Reduce paper consumption relative to 2012.	Achieved. In 2013, paper procured amounted to 13,196 kg (2012: 18,960 kg).	Reduce paper consumption in 2014 relative to 2013.
Sustainable procurement intensified.	Not achieved as a result of refining the definition of 'green' in 2013.	Increase the level of sustainable procurement.
SOCIAL ENGAGEMENT		
Support 80 art and cultural projects in the Netherlands.	Support 63 projects in various disciplines across the Netherlands.	No quantitative objective. Projects are mainly assessed on the basis of quality. Distribution across various disciplines and a geographic spread is the goal.
Encourage young talent with a single new policy area.	Not achieved. A music project was completed later than scheduled.	Alongside a music award, initiate awards for young talent in the visual arts and dance.

A SAFE BANK

As a result of the crisis and the ensuing turmoil on the financial markets, the theme of safe banking has taken on even greater importance in today's society. BNG Bank is internationally acclaimed as a reliable bank. Its ratings are in line with those of the State of the Netherlands. BNG Bank ranks second in Global Finance Magazine's ranking of the World's Safest Banks for 2011, 2012 and 2013.

Consistently meeting its strategic objectives reaffirms BNG Bank's added value for Dutch society. These objectives were also achieved in 2013. However, continuing to achieve these objectives is contingent on the continuing trust of the financial markets.

Achieving the first strategic objective 'substantial market shares in lending to municipal and provincial authorities, housing associations and healthcare institutions' (2013: 72%) demonstrates that BNG Bank actually lends at low rates. Citizens benefit because lower lending costs can be passed on in municipal rates, in social housing rents and the healthcare charges and education fees than would otherwise be the case. The benefit for the relevant client sectors cannot be computed because competitor quotations are unknown, but the rate reduction per basis point (0.01%) equates to savings for the public and semi-public sector of EUR 8 million on interest expenses across a total portfolio of over EUR 80 billion. In order to secure low rates for lending to the above institutions, the bank aims to achieve a reasonable return on equity, its second strategic objective. The bank's annual result – EUR 283 million for 2013 – will be credited in full to the government, partly in the form of a dividend and partly as capital appreciation in the enterprise. The effects will ultimately benefit citizens.

BNG Bank seeks to strike a good balance between the interests attached to the value created as a result of meeting these two strategic objectives. For this reason the bank does not seek to achieve a maximum return. Under the given circumstances, however, the current return on equity by means of retained earnings will contribute – as described above – to comply to the European leverage ratio regulation which enters into force in 2018.

An essential component of the safe bank theme is adequately controlling the risks inherent in operating a bank. The Risk section in the financial statements details the various types of risks and the manner in which BNG Bank controls these risks. This includes developments in the field of cyber security and cybercrime, which require constant attention in today's society to ensure a safe and secure payment system. The security of payment system products and services is a number one priority at BNG Bank. With this in mind, in 2013 BNG Bank also

The bank's **annual result** – EUR 283 million for 2013 – **will be credited in full to the government**, partly in the form of a dividend and partly as capital appreciation in the enterprise. The effects will ultimately benefit citizens.

participated in the collaborative efforts undertaken by banks and the government to safeguard secure payment services.

As a result of the financial crisis, financial institutions have to deal with more regulations and there is a greater focus on an ethical corporate culture. In early 2012 BNG Bank introduced an updated Company Code of Practice which sets out the bank's integrity policy. Based on the Code a number of internal regulations entered into force against which assessments are conducted. Elements of the moral ethical statement in the Dutch Banking Code are incorporated in the Company Code of Practice. The latter Code provides direction on the conduct of BNG Bank and its employees towards stakeholders.

The Company Code of Practice and the accompanying internal regulations and procedures – including a complaints procedure – are published on bngbank.nl.

RESPONSIBLE GROWTH

The bank's public interest is reflected in lower rates for social provisions for the public. This is achieved by lower lending rates for municipalities, housing associations and healthcare and education institutions. The objective is that the bank's loans in these sectors should at least make up 85% of its loan portfolio. The bank's added value to Dutch society – estimated to be hundreds of millions of euros arising from profit and rates – was once again corroborated in 2013. A key area requiring attention in this objective is the financing of sustainable investments for these client groups. For more general client sector trends, see the section on 'Client developments' in this Annual Report.

SUSTAINABLE INVESTMENTS

In its recommendation 'Towards an energy agreement for sustainable growth' the Social and Economic Council of the Netherlands (SER) stated at the end of 2012 that the transition to sustainable energy management and a carbon-neutral economy is well underway in numerous countries and is irreversible. On 10 July 2013 an agreement was reached concerning details of the national Energy Agreement. Following consultations with various support groups, the agreement was signed in 2013. BNG Bank's key client groups participated in the SER consultation through industry organizations such as the Association of Netherlands Municipalities (VNG), the Interprovincial Consultation Body (IPO) and the Federation of Housing Associations in the Netherlands (Aedes). The Dutch Banking Association (NVB) was also involved.

HOUSING ASSOCIATIONS

The objective set in the 'Covenant on Energy Savings in the Rented Housing Sector' states that the total supply of rented housing must achieve an average energy label of B by 2020. Based on the survey conducted by Ortec Finance on making existing housing more sustainable, and the trend report on new-build housing published by the Social Housing Guarantee Fund (WSW), the bank assumes that sizeable investments with sustainable characteristics will be made in the housing sector.

MUNICIPALITIES

A survey by Deloitte and NL Agency shows that 90% of the 25 major municipalities have defined specific sustainability objectives. 90% of municipalities surveyed stated that they would not make any spending cuts on sustainability despite the consequences of the economic and financial crisis. They deem raising the level of sustainability as an opportunity to save costs, in both the short and long term.

Under the auspices of the SER, last summer various parties reached agreement on the broad outline of the Energy Agreement for sustainable growth. Rather than awaiting the results of the lengthy negotiations, many municipalities have already undertaken initiatives in this area. And this has yielded results.

MUNICIPALITIES MAKING SUSTAINABILITY INROADS

HAARLEMMERMEER

ALDERMAN JOHN NEDERSTIGT

Haarlemmermeer's sustainability program includes over 60 projects. Economic considerations form a key starting point. John Nederstigt, alderman: ‘Sustainability is rewarding, not only in terms of euros but in terms of reducing CO_2 emissions and improving public health too. And it makes us less dependent on energy supplies from unstable regions. It's rewarding for all sides.’

A cooperative energy company was founded to install solar panels on the roofs of 3,000 housing association homes. While permission from the individual tenants was not required, they do in fact benefit from lower energy costs. BNG Bank advised on the risk analysis performed prior to providing financing.

Meermaker saw the light in 2013. The municipality contributes EUR 3.3 million to this participation fund, which has meanwhile realized its budget ten times over. Nederstigt: ‘We provide a portion of the funding on the principle of a revolving fund, in other words each euro invested will ultimately be returned and, in turn, earmarked for a new project.’

ZWOLLE

ALDERMAN ERIK DANNENBERG

Zwolle embraces a broad sustainability vision. Erik Dannenberg, alderman: ‘People, Planet and Profit all point in the same direction. We've achieved a great deal but it is difficult to achieve our CO_2 emissions targets due to population growth and increased economic activity. Yet we haven't tweaked our goals. This means that we need to come up with even smarter solutions.’

The energy-guzzling city hall, for instance, with HR++, glass, thermal storage and LED lighting, will take us to energy label A. While these types of investments do cost money, they are feasible because the lower operating costs have been included in the calculation. Dannenberg: ‘These are referred to as the total costs of ownership or life cycle costs, or as my grandma used to say: purchasing cheaply is expensive.’

‘On Google Earth's new pictures you'll notice that Zwolle is now largely tinged blue’, says Dannenberg. In August 2013 he installed the last of the 4,000 solar panels that were installed on municipal roofs in August 2013. Solar panels now cover 1.3 hectares in total. ‘Thanks to Energiefonds Overijssel other parties will be able to follow suit.’

17 October 2013 marked the official opening of the new Isala hospital in Zwolle by Her Majesty Queen Máxima of the Netherlands. The sustainable building's floors incorporate natural stone and bamboo. Heating and cooling are regulated by the underground thermal storage system. As a consortium member, BNG Bank was closely involved in arranging financing for the new hospital.

DORDRECHT

ALDERMAN HARRY WAGEMAKERS

Dordrecht is pursuing two sustainability routes. Alongside the investments made by the municipality's own organization, four impulse projects are giving it a requisite boost. Harry Wagemakers, alderman: ‘We're not pursuing sustainability for the sake of the ‘P’ in Planet alone. Money can be made on sustainability by making savings and spending less. If you focus on the ‘P’ in Profit, you'll automatically achieve the ‘P’ in Planet.’

One of our spearheads is Warmtenet Dordrecht, our district heating network. The residual heat from HVC, a waste-to-energy company, is used for housing and businesses. This again involves a combination of financial and sustainable aspects. Wagemakers: ‘At present heating literally peters out. If you can commercialize this, you'll double your returns. Your financial position will improve and the city will become more sustainable.’ The municipality of Dordrecht and HVC have built a waste-to-energy plant, 50% of which was financed by BNG Bank.

Energy cooperative Dordrecht promotes sustainable energy generation, particularly solar panels, but also plans to deploy wind turbines in the near future. At the end of 2013 the alderman submitted a proposal for a Wind Energy Implementation Agenda to the municipal council to build wind turbines on the island of Dordrecht.

HEALTHCARE INSTITUTIONS

The growing importance of the theme of CSR was revealed in the Hospital CSR Monitor 2012, a survey on hospitals' sustainability strategy and performance. The emphasis to date has primarily been placed on the theme 'Caring for People'. According to the report, performance against the other key CSR objectives has not yet reached the desired level. Several university medical centers participate in the Long-Term Energy Efficiency Covenant 3 (MJA 3), a voluntary agreement – but not without obligation – between the government, business and industry, and institutions aimed at achieving 2% energy savings each year.

BNG BANK'S POLICY

Lending to clients for the purpose of financing investments linked to sustainable objectives is a pivotal point of departure in this context. To that end a policy was formulated in 2011. Under this policy, three principles must underlie the application of the bank's product portfolio for sustainable projects:

- the creation of a win-win situation for both clients and the bank.
- the creation of a positive incentive for sustainable client investments.
- projects must fit in with BNG Bank's strategy and business activities.

In view of these principles, the bank's policy is designed to inform and provide clients guidance in achieving a sustainable investment profile. Maintaining excellent creditworthiness, however, should also attest to BNG Bank's corporate social responsibility. This imposes limitations on the level and complexity of the risks BNG Bank desires to accept in financing projects. Starting from this framework, as a financial services provider the bank believes it has a key role in raising awareness among its clients:

- as an advisor on the financial structure of concrete investment projects, in other words pro-actively advising clients of sustainable investment opportunities.
- acting as a provider of tailored financing arrangements that are acceptable to the bank in terms of risk profile. BNG Bank's strong position on the financial markets means that clients benefit from competitive rates.

Despite BNG Bank's efforts in advising clients to consider including sustainable investment variants when weighing up the options, it is aware that the final decision on the extent to which the client enters into such opportunities lies entirely with the client. As BNG Bank stated earlier, this poses a dilemma. In response to the dilemma the bank has resolved to respect decisions directly or indirectly reached by clients on the basis of a democratic decision-making process, even if they nonetheless opt for an investment which ticks fewer sustainability boxes.

For the same reason BNG Bank consciously opted not to set firm revenue targets, the more so because investments and financing are not inextricably linked. Lending by BNG Bank mostly comprises non-earmarked balance-sheet financing (84%). It is not clear, even after having made enquiries with clients, what portion of lending is used for operating activities, to consolidate short-term loans or for sustainable investments. This applies not only to municipalities but also to housing associations. Furthermore client financing by BNG Bank only covers a portion of the total funds made available. Specific loans are not always taken out for all of these combined purposes. The required funds are shrouded in balance-sheet financing. This poses a dilemma in determining how significant the bank's role is in terms of these investments.

Since the bank has achieved very substantial market shares – around 70% – in the three major client sectors in recent years, we believe that it is fair to assume that BNG Bank accounts for a sizeable portion of sustainable investments. BNG Bank's added value entails providing financing at competitive rates, usually with extended maturity periods, which helps to improve the financial feasibility of a specific business case. In terms of credit subject to solvency requirements, BNG Bank has a greater level of involvement.

In that area, BNG Bank's added value more specifically takes the form of consultancy, based on the expertise the bank has meanwhile acquired in structuring sustainable investment financing. Municipalities and housing associations have a particular need for such consultancy. In addition to individualized consultancy services, the bank helps to expand and deepen knowledge. In the past year BNG Bank began raising its profile in this area by means of publications and holding presentations for clients as well as at meetings and conferences. It has also contributed to relevant forums (bngbank.nl). BNG Bank plans to further expand these activities.

The bank's key policy objective is to develop loans to finance the roll-out of solar panels on housing association homes and making existing accommodation more sustainable. Tailored financing arrangements and forms of collaboration have now been made available (bngbank.nl).

The Energy Performance Contract (EPC) is an example of a successful financing solution. In this financing arrangement the energy risk lies with the market players while a newly formed Energy Service Company (ESCo) guarantees energy savings to the public party awarding the contract. The balanced distribution of risk enables BNG Bank to finance the ESCo directly. BNG Bank has also financed investments made by utilities in the renewal of a wind farm, and the construction of power stations that generate energy from waste and biomass. BNG Bank contributes to making public real estate more sustainable by financing DBFM(O) contracts for the Government Buildings Agency ('Rijksgebouwendienst').

Unlike balance-sheet financing as referred to earlier, the total amount provided by BNG Bank in the form of project financing can be quantified. Over EUR 500 million in total has to date been provided through this financing solution. For policy reasons the bank does not disclose information on individual clients.

DILEMMA: FEASIBILITY

Technical risks, market risks, major government spending cuts and municipalities' reticence to enter into public-private partnerships have dampened client interest in outsourcing long-term work/project financing. Whilst the Energy Agreement seems to signify a new impetus, it is difficult to gain proper insight into the level and stability of market demand. In practice sustainable investments often are local, small-scale and embrace certain ideals. Development projects proceed in small steps and are generally not underpinned by a durable policy. Against this background parties take on sustainable projects. The problem facing BNG Bank is that its organization - which is relatively small in terms of headcount - has not been designed to issue loans carrying a credit risk of under EUR 5 million. Small projects with a high credit risk that require close attention do not dovetail with the bank’s business model which is geared towards a low level of risk in the loan portfolio to ensure that the bank can continue to fulfill its public role.

MAKING PUBLIC LIGHTING MORE SUSTAINABLE

Making public lighting more sustainable in municipalities affords opportunities to save on maintenance, replacing lights and energy costs. In association with a medium-sized municipality BNG Bank plotted various scenarios for making public lighting networks more sustainable. The lighting technology was found to be obsolete, the average age of the lighting systems was old and lighting materials were used inconsistently. This meant that several types of masts, lighting fixtures and lamps were used.

Making the public lighting network more sustainable in a budget-neutral manner, however, proved to be a complex matter. The idea was to freeze the current maintenance and energy budget and, based on this, to accelerate the replacement of obsolete and energy-inefficient lighting fixtures and lamps and to bring this forward in time. The two major hurdles that emerged were the 10% cutbacks on energy costs imposed by the municipal council that had already been structurally incorporated in the budget and the absence of budgets for replacing the obsolete masts. To date only the lighting systems in the municipality have been replaced on a project basis during road reconstruction work, for instance, and when developing land.

To expand sustainable investment lending activities, the market possibilities for bundling financing and risk mitigation for sustainable investments must be further examined. If there are good prospects of generating revenue, BNG Bank is willing to accept occasional projects requiring a loan of under EUR 5 million. The bank pro-actively highlights the available financing models when talking to clients.

The focus on sustainability has been integrated into the BNG Vermogensbeheer investment process by working closely with Sustainalytics, a research agency, which assesses the asset manager's sustainability performance. BNG Vermogensbeheer excludes institutions that have not signed the Global Compact Principles and/or the Equator Principles.

A customer satisfaction survey conducted in 2012 showed that BNG Bank enjoys a high level of customer satisfaction. The complaints procedure, however, was found to require improvement. The complaints procedure was posted on bngbank.nl. A key theme in the financial sector is 'putting the client and the client's interests first'. This theme essentially embraces the conviction that products and services must be in the client's interest and that due consideration must be given to the client's interests when weighing wide-ranging stakeholder interests. Client focus is inextricably linked to BNG Bank's public interest-oriented mission. The definition chosen to that end is: 'I place my clients first when offering them added value with my products and services'.

ENGAGED EMPLOYEES

BNG Bank provides its services with a small workforce. Emphasis on staff development is crucial to the bank in fulfilling its mission. It is therefore essential that expert and experienced people be retained and new, motivated employees be recruited. Motivated employees are instrumental in ensuring effective and efficient business operations and thus serve the bank's public interest. This is all the more important when taking the ever-increasing regulatory burden into consideration which must be dealt with by a small workforce. Skills development is acknowledged as a good and practical term of employment by current and prospective employees. Personal development is deemed a major plus point. BNG Bank's personnel policy therefore places a strong emphasis on training and development. In view of the size of its workforce, training and development costs are limited.

BNG Bank has from time to time been compelled to take leave of employees. In such cases the relevant staff are offered a new job opportunity elsewhere. One such example is the reorganization of BNG Gebiedsontwikkeling in 2013. Municipal area development activities have virtually come to a standstill forcing the bank's subsidiary to downsize. Seven employees received support from an outplacement firm in their search for another job and a reimbursement for training expenses.

PERSONAL DEVELOPMENT

Employees draw up a personal development plan together with their manager each year, serving as guidance for their personal development. A tailor-made training program themed around project-based risk management and change management was organized for the more experienced project managers.

DEVELOPMENTS ACROSS THE ORGANIZATION

The 2012 employee satisfaction survey again affirmed that employees feel a great sense of engagement with the organization. They moreover identified opportunities to improve efficiency and interdepartmental collaboration. These action points were elaborated in 2013. One of the main areas requiring attention is reducing complexity. Standardization is being further implemented into the business processes. This equally applies to related matters, such as definitions and contracts. Credit documentation consistency reduces the likelihood of errors and improves the credit process. A critical look is also being taken at tailored services to determine whether tailoring is really necessary, or not.

Internal work placements and exchange projects among departments serve to raise knowledge levels and increase departmental understanding of each other's work. These activities, which emerged from the employee satisfaction survey, were found to be advisable, they have proven to improve collaboration and the organization keenly encourages initiatives of this nature. The bank additionally ensures general knowledge is shared by hosting information meetings which are open to all employees. These popular meetings are now being organized at least eight times a year. In the light of experience the 'coaching leadership' objective in the employee development program was revised. Emphasis has now been placed on improving collaboration between managers. The philosophy is that 'leading by example' improves collaboration among departments and ultimately all staff. The program will be implemented in 2014. The next employee satisfaction survey is scheduled for 2015.

PROJECT MANAGEMENT

A coordinating project office was established following a review of project management last year. With the business environment being dynamic, the organization is required to adapt accordingly. To ensure that these changes are implemented in a structural manner, BNG Bank works on a project basis. The project office not only increases project capacity but also distributes the workload in the appropriate proportions.

SUSTAINABLE EMPLOYABILITY

Personnel advisors discussed current headcount and the anticipated development of the workforce with all managers. The requisite competencies were identified and an employee assessment was conducted to determine whether employees have the ability to acquire these competencies. More information on the organization and workforce, terms of employment, working conditions and staff development is included in the GRI Index (bngbank.com).

ENVIRONMENTALLY CONSCIOUS OPERATIONS

Our society is seeking ways to reduce its impact on the environment. Initiatives focus on energy conservation and, in turn, reducing CO_2 emissions. The financial services sector is regarded as a sector that is not particularly harmful to the environment. Considering the bank's limited office space, the benefits to be derived are relatively small and are therefore deemed non-material for the bank. Calculating the corresponding monetary value would therefore not add any significant value. Against this background, the bank resolved not to compare environmental performance in the recent period with developments at the global, regional or local level.

However, if CSR is to be credible it must include environmentally conscious internal business operations. As part of environmentally conscious operations, a modification was made to the car lease scheme in that maximum CO_2 emissions now jointly determine the available vehicle options. A public transportation business travel pass is a further option offered. The rules on qualifying for the 'green article' label were tightened in the past year. In the light of the tightened rules BNG Bank is looking at further 'green' procurement options. In the years ahead the policy on environmentally conscious operations will continue to focus on reducing the bank's CO_2 footprint, raising environmental awareness among staff, and increasing sustainable procurement.

SOCIAL ENGAGEMENT

BNG Bank embraces social engagement by, for instance, calling attention to relevant developments in its client sectors. To that end BNG Bank takes position in the relevant consultation forums with policy developers and interest groups, and seeks attention from the government members accordingly. Examples are the introduction of treasury banking for municipal and provincial authorities as described earlier, the issues surrounding healthcare financing and involvement in examining possibilities for improving the financeability of public housing.

BNG Bank believes it is essential to promote art and cultural activities that are of importance to municipalities. In 1964 the bank therefore established BNG Cultuurfonds on the occasion of the bank's 50th anniversary. Such funds are becoming increasingly important now that the art and culture sector in the Netherlands has also been affected by government austerity measures. An overview of the activities of BNG Cultuurfonds can be found on bngbank.nl. Alongside these activities BNG Bank contributes to raising young people's awareness of finance and the value of money through the 'Money Week' ('Week van het Geld') project and offers students assistance in writing a thesis or graduation assignment. ■

ZEELAND: RENEWAL OF KREEKRAKSLUIS WIND FARM

DELTA N.V., A BNG BANK CLIENT BASED IN ZEELAND, WAS AMONG THE INITIATORS OF THE RENEWAL OF KREEKRAKSLUIS WIND FARM IN THE SAME REGION. THE WIND FARM HAS A TOTAL OF 31 WIND TURBINES WITH A TIP HEIGHT OF 130 METERS AND AN AXLE HEIGHT OF 80 METERS. DELTA INSTALLED 16 OF THE 31 WIND TURBINES. FOLLOWING MODERNIZATION THE WIND FARM GENERATES 200,000 MEGAWATTS A YEAR FROM WHICH IT SUPPLIES SUSTAINABLE ENERGY TO 55,000 HOUSEHOLDS.

LEO VALKENBURG, SENIOR MANAGER PUBLIC FINANCE, NEAR ONE OF THE RENEWED WIND TURBINES

Outlook for 2014

The financial prospects for the bank's core client sectors remain not particularly positive. The unfavorable economic climate coupled with spending cuts or increases in the financial burden offer little room for new investments. Nevertheless, the bank expects that the level of new long-term lending in 2014 will be similar to that of 2013 on account of the high demand for the refinancing of existing loans. BNG Bank will continue to fulfill the demand for solvency-free lending unabated. In the light of the economic outlook it cannot be ruled out that several debtors may no longer be able to perform their payment obligations. This may necessitate an addition to the incurred loss provision or an impairment.

BNG Bank's long-term funding borrowing requirements in 2014 are expected to be around EUR 12 billion, which is EUR 3 billion lower than in 2013. The bank aims to at least maintain its robust liquidity profile by obtaining funds with relatively long-term maturity periods. The developments on the international capital markets in the past year give cause for optimism about the level of the spreads to be paid.

Statutory bank levy also applies in 2014. The bank's contribution, which is determined on the basis of the balance sheet as at 31 December 2013, is EUR 30 million and will be charged to the income statement in October 2014.

The bank's cost level is expected to rise as a result of accumulating new regulations that need to be implemented in the bank's systems and processes. Consolidated operating expenses are expected to amount to EUR 66 million for the full year 2014, excluding the expenses arising from the transition to ECB supervision. It is not yet clear how the costs of ECB supervision will be passed on to the institutions that are subject to supervision. Nor is it clear what activities, additional or otherwise, the bank is required to undertake in respect of ECB supervision.

The interest result for 2014 is expected to turn out slightly lower than 2013, due to the persistently low long-term interest rates. The interest income on the bank's own funds has been under pressure for several years now due to the low interest rate. Moreover the bank's loan portfolio and the corresponding margin are not expected to increase much further over the coming years. In the immediate future too, the result on financial transactions will remain sensitive to the level of economic recovery in the Eurozone. In view of the persisting uncertainties, the bank does not consider it wise to express an opinion on the level of its net profit. ■

Declaration of Responsibility

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 year under review 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, 7 March 2014

Executive Board

C. VAN EYKELENBURG
CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	31-12-2013	31-12-2012
ASSETS		
Cash and balances with the central banks [1]	1,467	2,834
Amounts due from banks [2]	8,509	10,171
Financial assets at fair value through the income statement [3]	3,530	3,476
Other financial assets [4]	15,874	25,824
Financial assets available-for-sale [5]	9,607	9,018
Loans and advances [2]	92,074	90,725
Investments in associates and joint ventures [6]	53	89
Property and equipment [7]	17	18
Other assets [8, 9]	52	73
TOTAL ASSETS	**131,183**	**142,228**
LIABILITIES		
Amounts due to banks [10]	3,939	6,223
Financial liabilities at fair value through the income statement [11]	3,553	2,730
Other financial liabilities [12]	15,086	18,692
Debt securities [13]	94,828	99,424
Funds entrusted [10]	10,033	12,139
Subordinated debts [10]	32	33
Other liabilities [8, 9]	282	235
Total liabilities	127,753	139,476
Equity [14]	3,430	2,752
TOTAL LIABILITIES AND EQUITY	**131,183**	**142,228**

The references refer to the Notes to the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	2013		2012	
– Interest income 15	1,514		2,115	
– Interest expenses 16	984		1,642	
Interest result		530		473
Results from associates and joint ventures 17		−1		−2
– Commission income 18	30		31	
– Commission expenses 19	5		6	
Commission result		25		25
Result financial transactions 20		−5		88
Other results 21		3		4
TOTAL INCOME		**552**		**588**
– Staff costs 22	36		38	
– Other administrative expenses 23	26		25	
Staff costs and other administrative expenses		62		63
Depreciation 24		2		1
TOTAL OPERATING EXPENSES		**64**		**64**
Impairments 25		58		32
Bank levy 26		33		32
PROFIT BEFORE TAX		**397**		**460**
Taxes 9		−114		−128
NET PROFIT		**283**		**332**

The references refer to the Notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2013			2012		
NET PROFIT			**283**			**332**
Recyclable results recognized directly in equity:						
Changes in cash flow hedge reserve		401			213	
Changes in the revaluation reserve for financial assets available-for-sale:						
– unrealized value movements	101			382		
– realized value movements transferred to the income statement	−24			−8		
		77			374	
		478			587	
Non-recyclable results recognized directly in equity:						
Movement in actuarial result		0			0	
RESULTS RECOGNIZED DIRECTLY IN EQUITY			**478**			**587**
TOTAL			**761**			**919**

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros | Page 1/2

	2013	2013	2012	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	397		460	
Adjustments for:				
– Depreciation	2		1	
– Impairments	58		32	
– Unrealized results through the income statement	32		−75	
Cash flow generated from operations		489		418
Changes in amounts due from and due to banks (not due on demand)	−464		−2,791	
Changes in loans and advances	1,328		2,668	
Changes in funds entrusted	−1,255		619	
Changes in derivatives	−124		−990	
Corporate income tax paid	−216		−28	
Bank levy paid	−33		−32	
Other changes from operating activities	−499		−534	
		−1,263		−1,088
TOTAL CASH FLOW FROM OPERATING ACTIVITIES *		**−774**		**−670**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	−3,974		−2,142	
– Investments in associates and joint ventures	−4		−2	
		−3,978		−2,144
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	3,995		2,005	
– Property and equipment	–		–	
		3,995		2,005
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**17**		**−139**

* Interest received amounted to EUR 5,553 million (2012: EUR 5,813 million) and the interest paid amounted to EUR 5,008 million (2012: EUR 5,296 million).

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

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	2013	2013	2012	2012
CASH FLOWS FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Debt securities	54,270		25,359	
– Financial liabilities at fair value through the income statement	21		–	
		54,291		25,359
Amounts paid on account of:				
– Debt securities	−54,405		−26,554	
– Financial liabilities at fair value through the income statement	−408		−56	
– Subordinated debts	−2		−65	
– Dividend	−83		−64	
		−54,898		−26,739
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**−607**		**−1,380**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**−1,364**		**−2,189**
Cash and cash equivalents as at 1 January		2,833		5,022
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**1,469**		**2,833**
Cash and cash equivalents as at 31 December comprise:				
– Cash and balances with the central banks		1,467		2,834
– Cash equivalents in the Amounts due from banks item		2		2
– Cash equivalents in the Amounts due to banks item		–		−3
		1,469		**2,833**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH-FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	TOTAL
BALANCE AS AT 1 JANUARY 2012	**139**	**6**	**−271**	**−282**	**2,049**	**256**	**1,897**
– Net profit						332	332
– Unrealized results			374	213			587
– Dividend payment					−64		−64
– Appropriation from profit previous year					256	−256	–
BALANCE AS AT 31 DECEMBER 2012	**139**	**6**	**103**	**−69**	**2,241**	**332**	**2,752**
– Net profit						283	283
– Unrealized results			77	401			478
– Dividend payment					−83		−83
– Appropriation from profit previous year					332	−332	–
BALANCE AS AT 31 DECEMBER 2013	**139**	**6**	**180**	**332**	**2,490**	**283**	**3,430**

Accounting principles for the consolidated financial statements

GENERAL COMPANY INFORMATION

The financial statements were prepared and issued for publication by the Executive Board on 7 March 2014 and will be presented to the General Meeting of Shareholders for adoption on 24 April 2014. BNG Bank is a statutory two-tier company under Dutch law (structuurvennootschap). Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank is established in The Hague, the Netherlands, and has no branch offices.

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. The balance sheet items are carried at amortized cost, with the exception of the following items: Financial assets at fair value through the income statement, Financial assets available-for-sale, Other financial assets, Financial liabilities at fair value through the income statement, and Other financial liabilities. These balance sheet items are recognized 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. All amounts in the consolidated financial statements are presented in millions of euros, unless stated otherwise. The euro is the functional and reporting currency used by BNG Bank. Income is recognized insofar as it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses.

ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are prepared in accordance with the same accounting principles and presentation as the consolidated 2013 financial statements, with the exception of the application of new or amended International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union (EU).

APPLICABLE LAWS AND REGULATIONS

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

BNG Bank has applied the new, mandatory IFRS standards, amendments and interpretations as issued by the IASB and adopted by the EU effective 1 January 2013, to its 2013 financial statements. The application thereof has had an impact on valuation, the determination of the result and the explanatory notes in the 2013 financial statements. This is mainly attributable to the amendments arising from IFRS 13. The relevant standards, amendments and interpretations are as follows:

- The 2009-2011 annual improvement cycle: the improvement cycle does not affect the bank's reporting:
  - IFRS 1: Repeated application, Borrowing cost
  - IAS 1: Clarification of the requirements for comparative information (third statement)
  - IAS 16: Classification of servicing equipment
  - IAS 32: Tax effect of distribution to holders of equity instruments
  - IAS 34: Interim financial reporting and segment information for total assets and liabilities
- IAS 1 Amendment – Presentation of items of Other comprehensive income: the unrealized results in the consolidated statement of comprehensive income are divided into two groups. While, on the one hand, there are items that can be reclassified from equity to the income statement in the future (recycled), on the other hand there are items that can never be reclassified (non-recycled). Furthermore, BNG Bank has elected to present the unrealized results, which are subject to tax, as amounts net of taxes.
- IAS 19 Revised – Employee Benefits: This standard has a limited impact on the bank. On the one hand, it concerns the elimination of the 'corridor approach' for defined benefit pension plans and supplementary disclosures, such as quantitative sensitivity analyses. In line with this standard, this revision has been applied retrospectively and the comparative figures have been restated accordingly. The retrospective amendments to IAS 19 only relate to the interest rate

discount on mortgage loans classified as defined benefit pension plan. This employee benefit is not material for the inclusion of additional comparative figures and explanatory notes in accordance with the IAS 1 amendments arising from the 2009-2011 annual improvement cycle. On the other hand, the condition for classifying a multi-employer pension plan as a defined contribution scheme has been extended 'in substance'. As of 1 January, the pension plan of which the bank is a member has been classified for reporting purposes as a defined contribution plan. Additional explanatory notes are not required because the bank had already been allowed to treat the former defined benefit pension plan as a defined contribution plan due to the fact that the pension fund had no separate pension capital or a separate account, and the sector pension fund was unable to provide the required pension information to calculate an adequate pension provision under the defined benefit pension plan.

- IFRS 1 Amendment – Government Loans with a below market rate interest when transitioning to IFRSs: This has no consequences for the bank.
- IFRS 7 Amendment – Financial Instruments: Disclosure – Offsetting of financial assets and financial liabilities: The application of this amendment relates to the explanatory notes on actual or possible balance sheet netting arising from enforceable master netting arrangements or similar agreements (i.e. a collateral agreement). The amendment has considerable implications for the explanatory notes on the balance sheet netting of assets and liabilities included in the Risk section of BNG Bank.
- IFRS 13 – Fair value measurement: Under this standard a new definition has been introduced for fair value based on the transfer price ('the exit price'). The standard provides guidelines how to measure the fair value of assets and/or liabilities recorded at fair value on the balance sheet. This standard furthermore requires explanatory notes on the fair value of financial instruments. IFRS 13 incorporates the disclosure requirements under IFRS 7 regarding the fair value of financial instruments. The essence of IFRS 13 is that the fair value measurement of an asset or liability is not an entity-specific measurement but a measurement made from the market parties' perspective. Due, in part, to this standard, BNG Bank has tightened the valuation of derivatives for which the bank has an agreement with the counterparty for the daily exchange of collateral. These swaps, which the bank uses for hedging currency and interest rate risks and therefore generally retains through to maturity, are valued effective 2013 in accordance with the Overnight Index Swap curve (OIS), which is compiled on the basis of daily interest rates. This change in valuation has an impact on the volatility of the annual result. In order to mitigate this volatility, BNG Bank has changed its hedge accounting system and implemented multi-curve hedge accounting.

The changeover to OIS valuation combined with multi-curve hedge accounting has led to an one-off negative unrealized result of EUR 27 million in 2013. In respect of interest rate swaps without a daily exchange of collateral, the bank has taken a Credit Valuation Adjustment (CVA) into account for the counterparty's credit risk in the fair value measurement. At the end of 2013 the bank included a CVA of EUR 8 million negative in the fair value measurement of these interest rate swaps. BNG Bank has a zero Debit Valuation Adjustment (DVA) and a zero Own Credit Adjustment (OCA) due to its excellent creditworthiness. In line with the standard, this was applied prospectively.
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine: This does not apply to BNG Bank.

There are no IFRS standards, amendments and interpretations which are effective on 1 January 2013 that not have been adopted by the EU.

BNG Bank decided against the early application of the new or amended standards and interpretations issued by the IASB – irrespective of whether adopted by the EU – whose application is mandatory for the financial years commencing on or after 1 January 2014. Early application of these new standards and interpretations might have significant implications for the 2014 financial statements. BNG Bank is currently looking at the possible implications of the following standards which are relevant to the bank:

ADOPTED BY THE EU:
- IFRS 10 – Consolidated Financial Statements (supersedes IAS 27 in part and SIC-12 in full)
- IFRS 11 – Joint Arrangements (supersedes IAS 31 Joint Ventures)
- IFRS 12 – Disclosure of Interests in Other Entities
- Investment entities – Amendments to IFRS 10, 12 and IAS 27
- Transition Guide – Amendments IFRS 10, 11 and 12
- IAS 27 Revised – Separate Statements
- IAS 28 Revised – Investments in Associates and Joint Ventures
- IAS 32 Amendment – Financial Instruments: Offsetting Financial Assets and Liabilities
- IAS 36 Amendment – Recoverable amount disclosures for non-financial assets
- IAS 39 Amendment – Novation of derivatives and continuation of hedge accounting.

NOT YET ADOPTED BY THE EU:

- IAS 19 Amendment – Defined Benefit Plans: Employee Contributions
- IFRS 9 – Financial Instruments (2009, 2010, 2013)
- IFRS 9 and 7 Amendments – Disclosures: Mandatory effective date and transition disclosure
- IFRIC 21 – Levies (May 2013)

The IASB has divided the IFRS 9 Financial Instruments project into three components. The complete IFRS 9 standard will almost entirely replace IAS 39 – Financial Instruments: Recognition and Measurement. The first component of IFRS 9: Financial Instruments: Classification and Measurement was issued in November 2009 (financial assets) and in October 2010 (financial liabilities). The supplementary document on Financial Instruments: Impairment relating to the second component of IFRS 9 was published in January 2011. Although the consultation period ended on 1 April 2011, discussions are still ongoing at the IASB. The IASB published the Exposure Draft Financial Instruments: Expected Credit Losses in March 2013 and the third component of IFRS 9 – General Hedge Accounting on 19 November 2013. The aim of the third component, which has been finalized, is to align hedge accounting more closely with the bank's risk management. IFRS 9 has not yet been adopted by the EU. At the end of 2013 the IASB announced that the complete standard would not be implemented before 2017. BNG Bank is examining the implications of the new standard and does not rule out the possibility that the application of this standard will have a significant impact on the equity, results and explanatory notes.

SEGMENTED INFORMATION

IFRS 8 – Operating segments stipulates that segmentation is dependent on the way in which the organization is managed. The Executive Board does not distinguish between several segments when deciding on the deployment of resources and performance measurement. Therefore no segmented information is included in the financial statements.

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. Control means that it is possible for BNG Bank, either directly or indirectly, to determine an entity's financial and operational policy in order to derive economic benefits from the entities' activities. Control is presumed to exist if BNG Bank, either directly or indirectly through group companies, holds more than half of the voting rights or exercises control in another manner. Group companies are consolidated in full from the date that control has been obtained until such time as control ceases to exist or all related risks and benefits have been transferred to third parties. In determining whether BNG Bank has control over investment funds in which it holds units or shares, the financial interests held for BNG Bank's own account as a participant, as well as its role – or that of its subsidiaries – as a fund manager are taken into consideration. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. Appendix A contains a list of BNG Bank's consolidated subsidiaries. A complete list of the bank's subsidiaries has been filed with the Trade Register of the Chamber of Commerce in The Hague.

THE USE OF ESTIMATES AND ASSUMPTIONS

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The most important estimates relate to the fair value measurement of financial instruments for which there is no active market. Estimates are also used in determining impairments (including the incurred loss provision), deferred taxes and the employee benefits provision. BNG Bank uses generally accepted valuation models to measure the fair value of financial instruments for which there is no active market. 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. BNG Bank periodically evaluates the estimates and assumptions it applies. Any revisions are reported in the year in which the estimate is revised and are also recognized in the estimates for future years.

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 an asset was sold, or the price that would be paid if a liability was transferred in an orderly transaction between market participants as at the measurement date under the current market conditions. Starting point is that the valuation must be viewed from the perspective of market parties, whereby only 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 modeled 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, 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. Level 3 valuations are based in part on assumptions that are not supported by market data.

For a detailed description of fair value, please refer to Note 31 of the consolidated financial statements.

IMPAIRMENTS

Impairments include the impairments of financial and non-financial fixed assets. BNG Bank recognizes the changes in the incurred loss provision (Amounts due from banks and Loans and advances), impairments of instruments in Financial assets available-for-sale, impairments of associates and joint ventures and impairments of non-financial fixed assets in the Impairments item.

Impairments are recognized in the income statement if the carrying amount of a financial or non-financial asset, or the cash-flow generating unit to which the financial or non-financial asset pertains exceeds the estimated realizable value. If the financial or non-financial asset was provided against collateral, the proceeds minus costs from the sale of that collateral are taken into account in calculating future cash flows. If irrecoverable financial or non-financial assets generate cash flows even after having been written down, these cash flows are recognized directly in the income statement.

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 subjected 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 determines 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 chance of default (in terms of amount and timeliness) of the cash flows to be received. Impairments of BNG Bank's financial assets are divided into two groups:

- Financial assets carried at amortized cost
- Financial assets carried at fair value, with value movements recognized through equity (revaluation reserve for financial assets available-for-sale)

Financial and non-financial assets, which were subject to impairment, are assessed at each balance sheet date to determine whether there are indications that the impairment has decreased or no longer exists. If, in a subsequent period, the amount of the impairment decreases and this decrease can be objectively attributed to an event that occurred after the impairment, the impairment recognized earlier will be reversed for all financial assets, except for the investments in equity instruments, and the amount will be recognized in the income statement item Impairments. In the case of an equity instrument in the Financial assets available-for-sale item this decrease is treated as a (new) revaluation and credited to the revaluation reserve in the equity.

FINANCIAL ASSETS CARRIED AT AMORTIZED COST

BNG Bank creates an incurred loss provision which is charged to the income statement for outstanding loans to and receivables from banks, and loans and advances carried at amortized cost. In determining impairments, a distinction is made between loans and receivables involving an objective indication of individual impairment, and loans and receivables for which there is no objective indication of individual impairment. If an asset becomes permanently irrecoverable, it is charged to the impairment provision already created, with any difference being charged or added to the income statement item Impairments.

In forming this provision, BNG Bank first determines whether there are any objective indications of impairment of individual loans and advances, taking into account the amounts that are actually expected to be received after the write-down. For all items involving an objective indication of impairment an estimate is made at individual counterparty level of the future cash flows calculated at present value on the basis of the Discounted Cash Flow (DCF) method. The assumptions applied in this context include an estimate of the (forced-sale) value of collaterals, an estimate of payments still to be received, an estimate of the timing of these payments and the discount rate. Under IFRS uncertain future loss events may not be taken into account. Therefore the degree of probability plays no part in determining the individual impairments other than in the cash flow projections.

Loans and advances for which an objective indication of impairment does not exist, 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) and LGD (Loss Given Default). In 2011 the method for determining the level of the IBNI incurred loss provision was changed. The new method seeks to align the outcome of the internal rating models and the associated chance of a loss. As a result, the bank is considerably less dependent on management estimates when determining the level of this provision.

FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH EQUITY

The impairment of BNG Bank's financial assets carried at fair value through BNG Bank's equity can be divided into two groups:
- Investments in equity instruments
- Investments in debt instruments

In addition to the general objective indicators of impairment, investments in available-for-sale equity instruments, such as participating interests, also involve objective indications of impairment if the cost persistently exceeds the realizable value, that is, if the fair value is prolonged (more than nine months) or significantly lower (more than 25%) than the cost. If there are objective indications of impairment in equity investments available-for-sale, the difference between the cost and the current fair value, less any impairments recognized earlier, is first deducted from equity (the revaluation reserve for Financial assets available-for-sale) and recognized in the income statement item Impairments.

Investments in debt instruments, such as interest-bearing securities, are assessed for impairment if there are objective indications of the loss of a market, that the counterparty is facing financial problems or other indications. With regard to debt investments available-for-sale, any impairment in equity (revaluation reserve for Financial assets available-for-sale) is first written off against the income statement item Impairments.

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 for impairment. To determine impairments, an estimate is made of the realizable value and individual assets are divided into groups at the lowest level at which future cash flows can be identified (cash-flow generating units). The goodwill included in a participating interest is not considered separately in the impairment assessment, but is incorporated in the total carrying amount.

The realizable value of an asset or cash-flow generating unit is equal to the highest 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 recognized 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).

An impairment of non-financial assets, with the exception of goodwill included in non-financial assets, is reversed through the income statement (Impairments item) if there has been a change in the indication of impairment on the basis of which the realizable value was determined. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount minus depreciation or amortization, which would have been determined if no impairment had been recognized.

BALANCE SHEET NETTING

Assets and 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, and there is a distinct intention to settle either the net amount as such, or both items simultaneously.

FOREIGN CURRENCY

The euro is the functional currency and reporting currency used by BNG Bank, including its group companies. The consolidated balance sheet is drawn up in euros. Foreign currency transactions are translated into functional currency on initial recognition at the exchange rate applicable on the transaction date, and the exchange results are charged or added to the foreign currency result. At the balance sheet date, the foreign currency items, including debt and equity instruments recognized under Financial assets available-for-sale, are revalued in the functional currency at the closing rate. Non-monetary foreign currency items carried at cost are not revalued at the balance sheet date, unless these items were designated as a hedging instrument in a fair value hedge accounting. The exchange results of monetary items arising from exchange rate and translation differences are recognized at the balance sheet date under the income statement, Result financial transactions, with the exception of the following:

- The effective portion of the foreign currency items that were designated in a cash flow hedge accounting relationship. These exchange rate differences are recognized in the cash flow hedge reserve.
- Non-monetary foreign currency items whereby fair value movements are recognized through equity, including the equity instruments under the Financial assets available-for-sale item. These exchange rate differences are recognized in the revaluation reserve in equity.

RECOGNITION AND ACCOUNTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognized on a transaction basis. This means they are recognized 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) as well as derivatives.

Financial assets and liabilities are initially recognized at fair value, plus the transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability with the exception of the transactions recognized at fair value and the results recognized through the income statement. The transactions included in the latter balance sheet item are measured at fair value without adding the transaction costs. After initial recognition, financial assets and liabilities are measured at either amortized cost or fair value, depending on the classification of the transaction. In addition to the notional amount, the amortized cost (amortization value) 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. At contract level, financial derivatives are stated as assets (positive fair value) or liabilities (negative fair value). Fair value movements of financial derivatives are recognized in the income statement in full.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized 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 derecognized when the obligation specified in the contract has been discharged or cancelled, or has expired.

If an existing financial asset or liability is contractually exchanged for another asset or liability from the same counterparty on substantially the same terms, the new asset or liability is treated as a continuation of the existing asset or liability at the same balance sheet value. No sales results are recognized in this case. As far as the sale of financial assets and liabilities is concerned, BNG Bank applies the First In, First Out (FIFO) principle. Within this context, the difference between the proceeds from the transfer and the carrying amount of the asset or liability is immediately and fully recognized in the income statement.

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 contribute financial assets while retaining all or substantially all of the risks and benefits in the context of repurchase transactions.

When financial assets are sold to a third party with a total return swap on the transferred financial assets, the transaction is recognized as a transaction comparable with repurchase transactions because BNG Bank retains all or substantially all of the risks and benefits attached to the ownership of such assets.

RECOGNITION AND ACCOUNTING OF DERIVATIVES

From initial recognition, derivatives are carried at fair value and any value movements are recognized under the the income statement item Result financial transactions. Derivatives with a positive fair value are presented in the balance sheet as assets under Financial assets at fair value through the income statement if they are not involved in a hedge accounting relationship, and under Other financial assets if they are involved in a hedge accounting relationship.

Derivatives with a negative fair value are presented in the balance sheet as liabilities under Financial liabilities at fair value through the income statement if they are not involved in a hedge accounting relationship, and under Other financial liabilities if they are involved in a hedge accounting relationship.

EMBEDDED DERIVATIVES

Embedded derivatives are valued separately if 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 host contract. And:
- The host contract is not carried at fair value, with value movements recognized through the income statement. And:
- A separate instrument on the same terms would match the definition of a derivative.

Derivatives that meet these conditions are measured at fair value on the date the contract is entered into, and value movements are recognized in the income statement item Result financial transactions. Contracts are only re-assessed if there is a change in the contractual terms which materially affects the expected cash flows.

HEDGE ACCOUNTING

The interest rate risks to which the bank is exposed in relation to its financial assets or liabilities and the variability in cash flows are primarily hedged using financial instruments. In market value terms, value adjustments resulting from interest rate and exchange rate fluctuations are offset. Insofar as the hedge accounting relationship is effective, in principle hedge accounting enables the bank to neutralize the difference in result recognition between the hedging instruments and the hedged items. BNG Bank applies both fair value as well as cash-flow hedge accounting. BNG Bank only uses derivatives as hedging instruments. They are mandatorily measured at fair value in the balance sheet with fair value movements through the income statement. In principle, the counterpart in the hedging relationship – i.e. the hedged item – is generally recognized at amortized cost. On the trade date of a derivative transaction, the bank designates whether or not it constitutes this derivative as hedge instrument of the asset or a liability item in the balance sheet.

Hedge accounting is only applied when formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between them and the objective of the hedge. Hedge documentation should demonstrate that the hedge accounting relationship 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 ineffective portion of the hedge relationship is always recognized directly in the income statement item Result financial transactions.

The hedge accounting relationship is discontinued when it ends complying to the concerning conditions, or when the hedged item or hedging instrument is sold or matures. The difference between the preceding balance sheet value and the amortized cost of the hedged item is amortized over the remaining period of the hedged item.

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 obligations also stated under the Funds entrusted and Debt securities item 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 that are hedged for interest rate risk using several derivatives. BNG Bank applies portfolio hedging to the majority of Loans and advances granted. There is no relationship between individual hedged items and hedging instruments, but it is demonstrated at the portfolio level that the derivatives involved offset the fair 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 fair value adjustment – unlike the micro-hedging situation – is recognized as a single line item in the balance sheet item Other financial assets.

CASH FLOW HEDGE ACCOUNTING

Cash flow hedging is used to hedge possible variability in future cash flows due to changes arising from exchange rate differences. BNG Bank applies cash flow hedge accounting to foreign-currency financial obligations included in micro-hedging which are recognized primarily in the Funds entrusted and Debt securities items. The effective portion of changes in the fair value of derivatives (hedging instruments), arising from changes in the cross currency basis spread, is not recognized in the income statement (Result financial transactions) but in the Cash flow hedge reservewithin the equity. The cumulative fair value changes arising from cash flow hedge accounting are transferred to the income statement (Result financial transactions) when the hedging instrument is sold or the hedging relationship is discontinued.

CASH AND BALANCES WITH THE 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) held for purposes other than trading, from both banks and clients, which are carried at amortized cost. In addition, interest-bearing securities (MTNs and bonds) are partly included in these items, insofar as they are not traded on an active market.

The Amounts due from banks and Loans and advances are recognized net of the incurred loss provision. For the accounting principles concerning the incurred loss provision, please refer to the Impairments section.

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 recognized at fair value as at 1 July 2008. The difference between the fair value and the redemption value as at 1 July 2008 is amortized over the remaining terms of the individual contracts.

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

These balance sheet items include derivatives that do not qualify for fair value hedge accounting in conformity with the conditions set out in IAS 39. Furthermore, BNG Bank occasionally uses 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 in a number of specific cases if:

- The purpose is to exclude an accounting mismatch.
- A portfolio is managed and evaluated on the basis of fair value.
- It concerns an instrument with an embedded derivative that is not separated.

The fair value designation of transactions, which is irrevocable, takes in principle place at the trade date.

OTHER FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

These balance sheet items include the market value of derivatives involved in a hedge accounting relationship (with regard to both interest rate risk and currency risk hedges). In addition, the Other financial assets item includes portfolio hedging value adjustments. These value adjustments refer to the effective portion of movements in market value resulting from hedging the interest rate risk in assets at the portfolio level.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Interest-bearing securities for which there is an active market at the trade date and equity instruments (such as participating interests with an interest of less than 20%) – insofar as they are not recognized in Financial assets at fair value through the income statement – are classified under the Financial assets available-for-sale item. These assets are retained for an indefinite period and may be sold, if desired. They are measured at fair value and value movements are recognized in equity, net of taxes.

The fair value of 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 visible net asset value 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 the 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 (interest, premiums and discounts) amortized on the basis of the effective interest method and any currency revaluation are recognized 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 recognized in the income statement item Result financial transactions. For the impairment accounting principles, please refer to the Impairments section.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are recognized pro rata in accordance with 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 to 50% of the shares or voting rights. Joint ventures are contractual arrangements in which BNG Bank and other parties launch an economic activity over which they exercise joint and proportionate control. For the impairment accounting principles, please refer to the Impairments section.

PROPERTY AND EQUIPMENT

All property and equipment owned by the bank, such as buildings and durable installations, are valued at cost less accumulated depreciation, taking into account any accumulated impairment losses. The depreciation period is determined based on the estimated useful life of the assets. 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. Impairments are recognized in the income statement. For the impairment accounting principles, please refer to the Impairments section.

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

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

EMPLOYEE BENEFITS

PENSIONS

The bank classifies its multi-employerpension 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 when 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 treated as defined benefit plans for which separate provisions have been formed. These other employee benefits relate to 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 balance sheet item Other liabilities. The costs relating to the employee benefits are recognized as staff costs in the income statement. Effective as of 1 January 2013 the main implication arising from IAS 19 for BNG Bank is the elimination of the 'corridor approach' for defined benefit pension plans, as a result of which all the actuarial results must be recognized directly in equity and will never be reclassified to the income statement in subsequent periods (non-recycled). These retrospective IAS 19 adjustments only relate to the interest rate discount on mortgage loans and are not material for the inclusion of additional comparative figures and explanatory notes in accordance with the IAS 1 amendments arising from the 2009-2011 Annual improvement cycle.

TAXATION

The tax amount is calculated on the basis of the statutory tax rates and the tax legislation in force. Deferred tax assets and liabilities are recognized as temporary differences between the carrying amounts and the tax bases of assets and liabilities. 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 realized. Differences in deferred tax assets and liabilities arising from a change in tax rates are recognized in the income statement. Deferred tax assets are recognized only to the extent to which taxable profits are expected to be realized in the near future to compensate for these temporary differences. 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. Tax assets and liabilities, both current and deferred, are netted if they concern the same tax authority and the same type of tax, and netting of these assets and liabilities is permitted by law. Group companies within the fiscal unit apply the determined tax rate.

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.

Equity includes a revaluation reserve in which the unrealized fair value movements arising from Financial assets available-for-sale, net of taxes, are recognized. This revaluation reserve also includes the changes in fair value net of taxes recognized 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 amortized over the remaining maturity period of the reclassified assets and recognized under Interest result in the income statement. In the event of an actual sale, the cumulative revaluation results are recognized in the income statement (First In, First Out or FIFO). 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.

Furthermore equity includes a cash-flow hedge reserve in which the unrealized movements in the fair value of derivatives, net of taxes, resulting from changes in the cross currency basis spread are recognized. The revaluation reserve for Financial assets available-for-sale and the cash-flow hedge reserve are adjusted by a deferred tax asset or liability based on the expected tax settlement if the assets concerned were sold immediately at the balance sheet date.

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 amortized cost. The effective interest method is used to determine amortized cost. If a transaction valued at amortized cost is sold, the difference between the carrying amount and the net proceeds of the sale is also recognized under either Interest income respectively Interest expenses.

RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures, valued in accordance with the equity method.

COMMISSION INCOME AND COMMISSION EXPENSES

In this item, the commission and fees paid or received are recognized in full in the income statement in the period in which the services were provided.

RESULT FINANCIAL TRANSACTIONS

This item includes the realized and unrealized gains or losses on changes in the fair value of derivatives, changes in the fair value of financial instruments recognized at fair value through the income statement, market value adjustments arising from counterparty credit risk (Credit Value Adjustment) in interest rate derivatives without a daily exchange of collateral, the effective market value adjustments arising from the hedged interest rate risk of hedged items involved in a fair value hedge accounting relationship, as well as the ineffective portion of the hedged risk in cash flow hedge accounting.

This item also includes gains and losses on the sale of Financial assets available-for-sale. These results comprise the release of related accumulated fair value movements from the revaluation reserve and the difference between the carrying amount and the net proceeds of the sale. In addition, this item includes the foreign currency results of financial transactions. Finally, the returns from the participating interests (equity instruments) included under Financial assets available-for-sale are recognized here.

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.

BANK LEVY

The Bank Tax Act entered into force on 1 October 2012 under which banks are required to pay a bank levy in October each year. The amount paid is charged to the result as a lump sum in that month.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income presents the aggregate net result of the reporting period and the direct changes in equity, net of taxes where applicable. Following the amendment of IAS 1 – Presentation of Items of Other Comprehensive Income, the presentation of the consolidated statement of comprehensive income has changed compared with the 2012 financial statements. In the 2013 financial statements, the amounts net of taxes are presented in groups of items that can be reclassified from equity to the income statement in the future (recycled), and items that can never be reclassified (non-recycled).

CASH FLOW STATEMENT

The cash flow statement has been drawn up in accordance with the indirect method. The cash flows are categorized as cash flows from operating, investing and financing activities. Cash and cash equivalents include cash at hand, the available balances with banks and the 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 debts and debt securities, as well as the dividend paid, are presented as financing activities.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the movement in items recognized in equity. ■

Notes to the consolidated financial statements

Amounts in millions of euros

1 CASH AND BALANCES WITH THE CENTRAL BANKS

This item comprises all legal tender as well as cash balances and deposits held with the DNB and ECB.

	31-12-2013	31-12-2012
Current account balances held at central banks (due on demand)	1,467	834
Overnight deposits with the central banks (due on demand)	–	–
Short-term deposits with the central banks (not due on demand)	–	2,000
TOTAL	1,467	2,834

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AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These items include all receivables from banks, the loans and advances measured at amortized cost, as well as interest-bearing securities insofar as these are not traded on an active market.

	AMOUNTS DUE FROM BANKS		LOANS AND ADVANCES		TOTAL	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Short-term loans and current accounts	2	2	5,209	5,687	5,211	5,689
Reverse repurchase transactions	2,009	2,235	501	501	2,510	2,736
Cash collateral	5,983	6,839	–	–	5,983	6,839
Long-term lending	17	28	83,529	81,201	83,546	81,229
Interest-bearing securities	–	151	549	674	549	825
Medium Term Notes	–	459	70	98	70	557
Reclassified available-for-sale investments	498	457	2,259	2,603	2,757	3,060
Incurred loss provision	–	–	−43	−39	−43	−39
TOTAL	**8,509**	**10,171**	**92,074**	**90,725**	**100,583**	**100,896**

	2013	2012
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	−39	−32
Additions during the financial year	−13	−8
Release during the financial year	2	–
Withdrawals during the financial year	7	1
CLOSING BALANCE	**−43**	**−39**

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3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as measured at fair value with changes in fair value recognized through the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives	1,073	873
Loans and advances	915	973
Securities	1,542	1,630
TOTAL	3,530	3,476

The total redemption value of the loans and advances and securities at year-end 2013 is EUR 2,007 million (2012: EUR 2,161 million).

4 OTHER FINANCIAL ASSETS

This balance sheet item includes the fair value of derivatives involved in a hedge accounting relationship and the value adjustments concerning the effective part of the market value adjustments due to interest rate risks of assets hedged at a portfolio level.

	31-12-2013	31-12-2012
Derivatives involved in a portfolio hedge accounting relationship	3,348	4,651
Derivatives involved in a micro hedge accounting relationship	4,925	9,823
Market value adjustments of assets hedged at portfolio level	7,601	11,350
TOTAL	15,874	25,824

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FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments, insofar as they are not recognized in Financial assets at fair value through the income statement.

	31-12-2013	31-12-2012
Government	6,415	5,507
Supranational organizations	899	812
Banks	1,472	1,430
Other financial institutions	284	659
Non-financial institutions	428	531
Investments in participating interests	109	79
TOTAL	**9,607**	**9,018**

TRANSFERS WITHOUT DERECOGNITION

Note 30 of the Risk section contains additional explanatory notes on the transfer of Financial assets available-for-sale without derecognition in combination with repurchase transactions.

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6 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INTEREST		EQUITY METHOD VALUE	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	2	1
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	0	0
– Transdev-BNG-Connexxion Holding BV, The Hague (TBCH)	–	25%	–	32
		SUBTOTAL	**2**	**33**
JOINT VENTURES				
BNG Gebiedsontwikkeling BV, participating interests	See note 40		51	56
		TOTAL	**53**	**89**

At the end of January 2013 the Dutch State, by exercising a put option, sold the remainder of its shares in Connexxion Holding NV to Transdev-BNG-Connexxion Holding BV (TBCH). As a result, TBCH acquired 100% (2012: 66.67%) of the shares of Connexxion Holding NV. Pursuant to the right it was granted in 2007, BNG Bank decided not to take part in the purchase of these shares. This sale decreased the bank's shareholding in TBCH from 25% to 13.6%. The decrease of the bank's financial interest means this participating interest is now classified in the 2013 balance sheet under 'Financial assets available-for-sale' (note 5) instead of 'Associates and joint ventures' (note 6).

For a description of the associates and joint ventures, please refer to note 40.

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PROPERTY AND EQUIPMENT

The movement in this balance sheet item is as follows:

	PROPERTY		EQUIPMENT		TOTAL	
	2013	2012	2013	2012	2013	2012
HISTORICAL COST						
Value as at 1 January	47	47	12	12	59	59
Investments	0	–	1	0	1	0
Disposals	–	–	–	0	–	0
Value as at 31 December	47	47	13	12	60	59
DEPRECIATION						
Accumulated depreciation as at 1 January	31	30	10	10	41	40
Depreciation during the year	1	1	1	0	2	1
Accumulated depreciation as at 31 December	32	31	11	10	43	41
BOOK VALUE AS AT 31 DECEMBER	15	16	2	2	17	18

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

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8 OTHER ASSETS AND OTHER LIABILITIES

	31-12-2013	31-12-2012
OTHER ASSETS		
Various receivables	52	73
TOTAL OTHER ASSETS	**52**	**73**
OTHER LIABILITIES		
Current tax liability	11	111
Deferred tax liability	196	39
Employee benefits provision	2	3
Other commitments	73	82
TOTAL OTHER LIABILITIES	**282**	**235**

For the deferred tax assets and liabilities, please refer to note 9. The other receivables are primarily composed of amounts receivable from lending to clients. The other commitments are primarily composed of amounts payable related to derivatives and lending to clients.

The employee benefits provision concerns a provision for the interest rate discount on mortgage loans to both active and retired BNG Bank employees. This provision has a long-term character. The elimination of the ‘corridor approach’ as a result of the revision of IAS 19 had an impact on the mortgage interest rate discount provision, whereby EUR 0.6 million in unrealized actuarial gains (before tax) has been transferred from the provision to the equity (‘Other reserves’) as at 1 January 2013. The comparative figures have been adjusted accordingly. At year-end 2013, an additional EUR 0.1 million in unrealized actuarial gains (before tax) was transferred from the provision to the equity (‘Other reserves’). Deferred tax liabilities have been recognized for these changes in equity. As the additional disclosure requirements in respect of a defined benefit plan are not significant for the bank, given the nature and

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volume of the mortgage interest rate discount provision (amounting to EUR 2 million as at 31 December 2013), they have not been explained in more detail. In addition, the employee benefits provision includes a provision for organizational changes.

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 organizational changes are as follows:

	2013	2012
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**

9 TAXES

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') for the period 2013 – 2014. This agreementapplies to BNG Bank's fiscal unit. Pursuant to the rulings, 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 fiscal result differs from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual fiscal profit up to the level at which the cost price is reached. The reconciliation between the effective tax rate and the nominal tax rate is as follows:

	2013	2012
Profit before tax	397	460
Tax levied at the statutory tax rate	–99	–115
Tax adjustment from previous years	0	–
Participation exemption (write-off of associate Transdev-BNG-Connexxion Holding BV)	–7	–5
Non-deductible costs (bank levy)	–8	–8
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**–114**	**–128**
Nominal tax rate	25.0%	25.0%
Effective tax rate	28.8%	27.8%

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2013	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	2		−1	1
Financial assets available-for-sale	−64	−23		−87
Cash flow hedge reserve	23	−133		−110
TOTAL	**−39**	**−156**	**−1**	**−196**

2012	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	3		−1	2
Financial assets available-for-sale	0	−64		−64
Cash flow hedge reserve	94	−71		23
TOTAL	**97**	**−135**	**−1**	**−39**

10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

This includes debts to banks, funds entrusted and subordinated debts, insofar as they are not embodied in debt securities.

	31-12-2013	31-12-2012
Current account	1,826	2,127
Deposits from banks	848	3,589
Other deposits	1,208	2,345
Cash collateral	422	1,427
Private loans	7,087	7,662
Total return swaps	–	651
Repurchase transactions	2,581	561
Subordinated debts	32	33
TOTAL	14,004	18,395

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes debt securities and private interest-bearing securities specifically designated as measured at fair value with changes in fair value recognized through the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives	1,601	1,422
Debt securities	1,442	1,308
Private interest-bearing securities	510	–
TOTAL	3,553	2,730

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The total redemption value of the debt securities and funds entrusted at year-end 2013 is EUR 1,652 million (2012: EUR 1,054 million).

12 OTHER FINANCIAL LIABILITIES

This balance sheet item concerns the fair value of derivatives involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives involved in a portfolio hedge accounting relationship	11,795	18,074
Derivatives involved in a micro hedge accounting relationship	3,291	618
TOTAL	15,086	18,692

13 DEBT SECURITIES

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

	31-12-2013	31-12-2012
THIS BALANCE SHEET ITEM IS COMPRISED AS FOLLOWS:		
Bond loans and euro notes	81,723	89,308
Euro Commercial Paper	13,105	10,116
TOTAL	94,828	99,424

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14 EQUITY

Since BNG Bank has no minority interests after consolidation, the entire consolidated equity can be attributed to the shareholders. The items included in equity are explained below.

	31-12-2013	31-12-2012
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	180	103
Cash flow hedge reserve	332	−69
Other reserves	2,490	2,241
Unappropriated profit	283	332
TOTAL	**3,430**	**2,752**

	2013	2012
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.27	1.49
PROPOSED DIVIDEND		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	64	76
TOTAL	**71**	**83**

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SHARE CAPITAL

The authorized 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 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 2013.

REVALUATION RESERVE

The revaluation reserve includes unrealized changes in fair value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognized in the Financial assets available-for-sale item. The revaluation reserve is adjusted for taxes. Upon sale of these assets, the associated cumulative result recognized in equity is transferred to the income statement. EUR 13 million (2012: EUR 12 million) of the Revaluation reserve was associated with equity instruments as at 31 December 2013.

CASH FLOW HEDGE RESERVE

The changes in the fair value of derivatives, resulting from changes in the cross currency basic spread, are recognized in the cash flow hedge reserve. This 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 27 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.

The consequence of the elimination of the 'corridor approach' in respect of defined benefit pension plans effective as of 1 January 2013 is that all actuarial results must be recognized directly in the equity and will never be reclassified to the income statement in subsequent periods (non-recycled). This amendment has an impact on the mortgage interest rate discount provision, in that EUR 0.4 million in unrealized actuarial gains (after deferred tax liability) was transferred to Other reserves as at 1 January 2013. The comparative figures have not been adjusted accordingly owing to the small amount. At year-end 2013, an additional EUR 0.1 million in unrealized actuarial gains (after deferred tax liability) was transferred from the provision to the equity ('Other reserves').

UNAPPROPRIATED PROFIT

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

15 INTEREST INCOME

This includes the interest income from loans and advances, deposits and investments, as well as the results from financial instruments used to hedge interest rate and currency risks. In addition, other credit-related income received is included in this item.

	2013	2012
Financial assets at fair value through the income statement	62	70
Derivatives not involved in a hedge accounting relationship	260	171
Derivatives involved in a portfolio fair value hedge accounting relationship	−2,181	−1,722
Financial assets available-for-sale not involved in a hedge accounting relationship	7	21
Financial assets involved in a hedge accounting relationship	3,201	3,303
Financial assets at amortized cost	164	281
Other interest income	1	−9
TOTAL	**1,514**	**2,115**

In the 2013 interest income EUR 1.3 million (2012: EUR 1.0 million) interest revenues have been recognized for financial assets, subjected to impairment. This concerns loans and advances (note 2) and financial assets available-for-sale (note 5).

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16 INTEREST EXPENSES

This includes the cost of borrowing and related transactions, as well as other interest-related charges.

	2013	2012
Financial liabilities at fair value through the income statement	81	52
Derivatives not involved in a hedge accounting relationship	177	−34
Derivatives involved in a hedge accounting relationship	−1,995	−1,714
Financial liabilities involved in a hedge accounting relationship	2,368	2,638
Financial liabilities at amortized cost	353	681
Other interest expenses	0	19
TOTAL	**984**	**1,642**

17 RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures.

	2013	2012
Associates	0	0
Joint ventures	−1	−2
TOTAL	**−1**	**−2**

For a description of the associates and joint ventures, please refer to note 40.

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18 COMMISSION INCOME

This item includes income received or to be received from services provided to third parties.

	2013	2012
BREAKDOWN OF THE COMMISSION INCOME:		
– Income from loans and credit facilities	12	14
– Income from payment services	10	9
– Income from fiduciary activities	8	8
TOTAL	**30**	**31**

19 COMMISSION EXPENSES

This item relates to fees paid or to be paid for services rendered by third parties in relation to loans and credit facilities, payment services and fiduciary activities.

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20 RESULT FINANCIAL TRANSACTIONS

This item relates to realized and unrealized results from value movements of financial instruments measured at fair value, with changes in fair value recognized through the income statement. These are offset nearly entirely by movements in the market value of the relating derivatives. This item also includes the result from sales of financial assets available-for-sale. In addition, this item includes the changes in the market value adjustments due to the counterparty credit risk (Credit Valuation Adjustment) for interest rate swaps without a daily exchange of collateral. From 2012, the (very limited) foreign exchange results are included in the various elements of this item.

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	2013	2012
MARKET VALUE MOVEMENTS OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	−12	31
– Interest rate derivatives without daily exchange of collateral (CVA)	3	−11
– Structured loans	19	9
	10	**29**
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	−4,147	3,731
– Financial liabilities involved in a micro fair value hedge accounting relationship	6,164	−1,139
– Derivatives involved in a hedge accounting relationship	−2,058	−2,565
	−41	**27**
RESULT OF THE CHANGEOVER TO OIS VALUATION OF DERIVATIVES WITH DAILY EXCHANGE OF COLLATERAL	−27	–
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	26	11
OTHER MARKET VALUE MOVEMENTS	27	21
TOTAL	**−5**	**88**

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The result financial transactions in 2013 is positively influenced by, on balance, the decreased credit and liquidity risk spreads on interest-bearing securities and structured loans to governments and institutions in Europe and the decrease of the credit risk in derivative transactions with clients. Furthermore, the result financial transactions is positively influenced by the realized results on the sale of interest-bearing securities and the unrealized revaluation of derivatives which are not involved in hedge accounting. On the other hand, the result financial transactions has been occasionally negatively influenced by the changeover to OIS valuation of derivatives with daily exchange of collateral. Moreover, the significant increase in long-term interest rates in the last month of 2013 contributed to the relatively large negative unrealized market value adjustments from hedge accounting transactions.

21 OTHER INCOME

	2013	2012
THE OTHER RESULTS CONSIST OF:		
– Income from consultancy services	3	4
TOTAL	**3**	**4**

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22 STAFF COSTS

	2013	2012
THE STAFF COSTS CONSIST OF:		
– Wages and salaries	25	25
– Pension costs	4	4
– Social security costs	2	2
– Addition to provisions	0	1
– Other staff costs	5	6
TOTAL	**36**	**38**

23 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, rent and maintenance costs of property and equipment, printing costs, training expenses and advertising expenses.

24 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 7).

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25 IMPAIRMENTS

The impairments in 2013 amount to EUR 58 million (2012: EUR 32 million).

	2013	2012
THE IMPAIRMENTS CONSIST OF:		
– Addition to the incurred loss provision for loans and advances	13	8
– Release from the incurred loss provision for loans and advances	−2	–
– Impairment of financial assets available-for-sale	21	–
– Impairment of associates and joint ventures	26	24
TOTAL	**58**	**32**

The changes in the incurred loss provision is included in the Loans and advances item (note 2).

The impairment of associates and joint ventures concerns EUR 20 million in impairments of the associate TBCH and EUR 6 million in impairments of joint ventures of BNG Gebiedsontwikkeling (see note 6). The devaluation of TBCH at the end of January 2013 is the result of exercising a put option on the shares of Connexxion by the Dutch State and the reduction of the shareholding from 25% to 13.6%. As a result of the reduction, the classification of TBCH as an equity instrument in the balance sheet is changed from ‘Associates and joint ventures’ (note 6) to ‘Financial assets available-for-sale’ (note 5). At the end of 2013, the bank wrote down TBCH's value as an equity instrument by EUR 8 million. Furthermore, at the end of 2013 the bank took an impairment of EUR 13 million for one Spanish mortgage-backed securitization.

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26 BANK LEVY

The Bank Tax Act entered into force on 1 October 2012. The expenses concerning the bank levy are not deductible for corporate text purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay a lump-sum bank levy on 1 October of every year, which for 2013 amounts to EUR 33 million (2012: EUR 32 million). Based on the methodology and assumptions laid down in the Act, the bank levy owed for 2014 is expected to be EUR 30 million.

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	2013	2012
THE BANK LEVY OWED WAS CALCULATED AS FOLLOWS:	**BASIS 2012**	**BASIS 2011**
Balance sheet total	142,228	136,460
Less: Regulatory capital (Basel II)	2,576	2,431
Less: Deposits covered by the deposit-guarantee scheme	42	45
Less: Liabilities relating to insurance activities	–	–
TAXABLE BASE	**139,610**	**133,984**
Less: Efficiency exemption	20,000	20,000
TAXABLE AMOUNT	**119,610**	**113,984**
Total sum of debts with a maturity of less than 1 year, according to the balance sheet	36,621	35,784
Total sum of all debts, according to the balance sheet	139,477	134,563
Bank levy on short-term debt component (0.044% of taxable amount)	14	13
Bank levy on long-term debt component (0.022% of taxable amount)	19	19
TOTAL	**33**	**32**

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27 FEES OF EXTERNAL AUDITORS

The fees paid to external auditors are included in Other administrative expenses. In conformity with Section 382a, of Part 9 of Book 2 of the Dutch Civil Code, a breakdown of the fees paid to the external auditors for audits and audit related and non-audit related services is given in note 27 to the company financial statements.

28 BREAKDOWN OF BALANCE SHEET VALUE BY REMAINING CONTRACTUAL MATURITY

The following tables present the breakdown of the balance sheet value by remaining contractual maturity of all financial instruments, excluding derivatives.

	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL 31-12-2013
Cash and balances with the central banks	1,467	–	–	–	1,467
Amounts due from banks	6,003	1,573	878	55	8,509
Financial assets at fair value through the income statement (excluding derivatives)	57	350	330	1,720	2,457
Financial assets available-for-sale	151	206	2,973	6,277	9,607
Loans and advances	8,338	10,152	36,720	36,864	92,074
TOTAL ASSETS	**16,016**	**12,281**	**40,901**	**44,916**	**114,114**
Amounts due to banks	1,787	2,152	–	–	3,939
Financial liabilities at fair value through the income statement (excluding derivatives)	13	24	475	1,440	1,952
Debt securities	11,342	14,689	45,762	23,035	94,828
Funds entrusted	2,960	363	1,865	4,845	10,033
Subordinated debts	1	1	7	23	32
TOTAL LIABILITIES	**16,103**	**17,229**	**48,109**	**29,343**	**110,784**

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					31-12-2012
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	2,834	–	–	–	2,834
Amounts due from banks	7,189	379	2,354	249	10,171
Financial assets at fair value through the income statement (excluding derivatives)	78	67	660	1,798	2,603
Financial assets available-for-sale	820	671	2,164	5,363	9,018
Loans and advances	8,470	11,171	36,142	34,942	90,725
TOTAL ASSETS	**19,391**	**12,288**	**41,320**	**42,352**	**115,351**
Amounts due to banks	4,033	1,089	1,101	–	6,223
Financial liabilities at fair value through the income statement (excluding derivatives)	54	301	301	652	1,308
Debt securities	10,285	17,671	49,097	22,371	99,424
Funds entrusted	4,121	842	1,983	5,193	12,139
Subordinated debts	1	1	8	23	33
TOTAL LIABILITIES	**18,494**	**19,904**	**52,490**	**28,239**	**119,127**

29 RECLASSIFICATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

On 15 October 2008, the EU adopted several amendments to IAS 39 and IFRS 7 (amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure) which allow an entity to reclassify financial instruments in certain circumstances, such as illiquid markets. BNG Bank used these amendments to reclassify a 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 trading in the portfolio (or parts of it) is restored, the possibility of a partial sale is not ruled out. The reclassification does not affect the realized results.

The effective interest rate of these reclassified assets, from the moment of reclassification, has a weighted average of 5.1% and ranges from 2.8% to 6.3%. In light of the fact that the assets have not been impaired, the calculation of the effective interest rate is based on the original cash flows.

BALANCE SHEET VALUE AS AT 31 DECEMBER 2013	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	9,607	12,189	−2,582
Amounts due from banks	8,509	8,011	498
Loans and advances	92,074	89,815	2,259
Equity	3,430	3,242	188
– of which revaluation reserve	180	−8	188

BALANCE SHEET VALUE AS AT 31 DECEMBER 2012	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	9,018	11,870	−2,852
Amounts due from banks	10,171	9,714	457
Loans and advances	90,725	88,122	2,603
Equity	2,752	2,545	207
– of which revaluation reserve	103	−104	207

	31-12-2013		31-12-2012	
	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION
RECLASSIFIED ASSETS				
– Balance sheet value	2,757	2,582	3,060	2,852
– Fair value	2,582	2,582	2,852	2,852
– Unrealized market value movement in equity	−114	−302	−134	−342
– Unrealized market value movement transferred to equity	20	40	24	106

Risk section

30 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 lending operations, a bank will have to accept a certain amount of credit, market liquidity and operational risk. Although individual risks, such as market risks, can be offset, this offsetting often leads to other risks. For example, offsetting market risk may entail a risk on financial counterparties.

The BNG Bank's risk management strategy is aimed at ensuring a reasonable return on investment for its shareholders while maintaining excellent creditworthiness.

The bank has prepared a risk appetite, which sets out the types and degree of risk the bank is prepared to accept in order to achieve its strategic objectives and implement its business plan. The risk appetite falls within the risk capacity, which is the maximum risk level that the bank can take on without exceeding regulatory capital and liquidity limits and at which it is still able to meet its obligations towards its clients, shareholders and other stakeholders.

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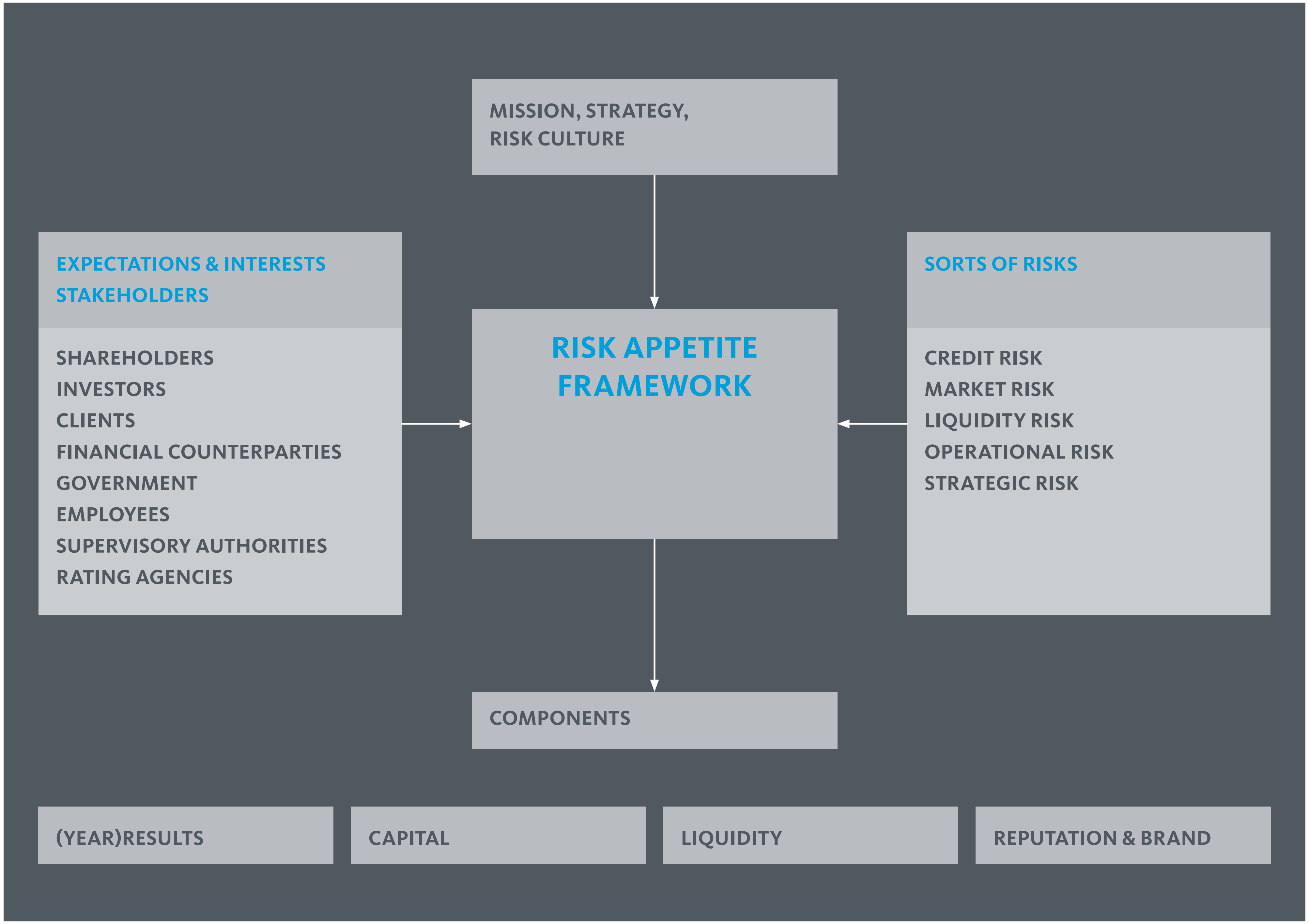
MISSION, STRATEGY,
RISK CULTURE
EXPECTATIONS & INTERESTS
STAKEHOLDERS
SHAREHOLDERS
INVESTORS
CLIENTS
FINANCIAL COUNTERPARTIES
GOVERNMENT
EMPLOYEES
SUPERVISORY AUTHORITIES
RATING AGENCIES
RISK APPETITE
FRAMEWORK
SORTS OF RISKS
CREDIT RISK
MARKET RISK
LIQUIDITY RISK
OPERATIONAL RISK
STRATEGIC RISK
COMPONENTS
(YEAR)RESULTS
CAPITAL
LIQUIDITY
REPUTATION & BRAND

The risk appetite is evaluated every year and adjusted where necessary, before being adopted by the Supervisory Board. The risk appetite serves as a risk tolerance guideline for the various risk types and the associated control frameworks and limits. The risk appetite is translated into individual risks and the way in which they are controlled. The framework of limits, indicators and reference figures has been brought into line with this. Where appropriate, policy adjustments are made in order to keep practical application aligned with the risk appetite. A monitoring program is conducted each quarter to determine whether the bank is still within the limits of its risk appetite. In this way, the risk appetite is embedded in the organization while its practical applicability is increased. The various directorates and departments indicate in their in control statements and annual plans how they will ensure compliance with the risk appetite from their respective areas of responsibility. In 2013, the bank remained entirely within its risk appetite limits. It should be noted that financial ratio's are more effectively monitored than less tangible matters such as the ability to continue complying with new regulations in the future. Risk management uses a set of reports aimed primarily at internal risk management. Where useful and possible, this framework is linked up with the external reporting requirements. BNG Bank applies the 'Standardized Approach' in reporting credit risk to the DNB and the 'Basic Indicator Approach' in reporting operational risk. In addition, the bank ensures that the reports meet increasingly strict requirements on aspects such as capital (ICAAP) and liquidity (ILAAP).

ORGANIZATIONAL RISK MANAGEMENT STRUCTURE

The bank has two differentiated management committees in which the Executive Board members and the responsible managing directors are represented. Each committee focuses on a specific risk area. The Asset & Liability Committee focuses on market and liquidity risk. The policies on credit risk and operational risk are dealt with in the Management Board. In both committees, the members of the Executive Board have the voting power.

RISK APPETITE FRAMEWORK

STRESS TESTING AND SCENARIO ANALYSIS

RISK APPETITE STATEMENT

CREDIT RISK	MARKET RISK	OPERATIONAL RISK	STRATEGIC RISK	LIQUIDITY RISK
CREDIT RISK POLICY PUBLIC FINANCE FUNDING & TREASURY	MARKET RISK POLICY	CONTROL SYSTEM OPERATIONAL RISK	CAPITAL MANAGEMENT PLAN	LIQUIDITY & FUNDING POLICY

CAPITAL MANAGEMENT PLAN (ICAAP)

ILAAP

DISCLOSURE POLICY

In managing its risk appetite, the bank has a risk appetite framework that distinguishes between various risk types, the relevant responsibilities and the various policy documents that describe the acceptance and control of these risks. This framework also includes the Capital Management Policy. This is regarded as an overarching policy covering all risk types – regardless of whether or not they require a capital reserve – and is dealt with by the Management Board, since that is where all key decisions affecting the allocation of capital are made.

Decisions regarding the actual acceptance of credit risks in the form of individual credits or other exposures are made by three independently operating committees: the Credit Committee, the Financial Counterparties Committee and the Investment Committee. All three are chaired by members of the Executive Board. The Executive Board is directly responsible for controlling strategic risks.

The Risk Control department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of market risk, liquidity risk, operational risk and other risks. In addition, the Credit Risk Assessment department draws up policy proposals with respect to credit risk, while as part of the lending process it also provides independent assessments and advice on risks relating to credit and review proposals for clients and financial counterparties, independently from the commerce. The Credit Risk Assessment department 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 credit watch activities - namely the supervision, management and processing of problematic financing arrangements. 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 to assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank and reports to the Executive Board. The bank also has an independent Compliance Officer charged with monitoring compliance with all relevant legislation. The duties, position and authorities of this compliance function are recorded in the BNG Compliance Regulations. The Executive Board periodically discusses the structure and performance of the bank's internal risk management and control systems with the Supervisory Board and the Audit & Risk Committee.

DEVELOPMENTS IN 2013

FINANCIAL MARKETS

The financial markets showed a trend towards normalization in 2013. The aversion for high-risk of the past few years largely disappeared, decelerating the 'flight to quality' which the bank had benefited from in the preceding years. This was mainly reflected in the rise of (very favorable) prices for short-term funding to pre-crisis levels. However, the spreads that the bank had to pay for long-term funding fell significantly and the prices were clearly more stable than in previous years. The arbitrage options between the euro and the dollar were fewer. The market in 2013 is better characterized by the word 'nervous' rather than the word 'stressed.' While short-term interest rates remained low – mainly owing to the policy of the central banks – longer-term interest rates fluctuated during the year in different maturity segments causing the interest-rate curve to alternately steepen and flatten. The absolute levels remained relatively low and the correlation between the euro and the US dollar, the two most important currencies in which the bank raises funding, was positive: an upward movement of the dollar interest rate led to a more limited upward movement of the euro interest rate, and any downward movement of dollar interest rate had the opposite effect.

The announcement by FED of the roll-back of the stimulus measures in May 2013 produced a violent market reaction. At the end of the year, however, that same market seemed hardly affected by reports on the actual reduction of the stimulus measures. A further sign of normalization of the market was the slightly rising competition in client lending.

End of 2013, credit rating agency Standard & Poor's lowered its rating for the State of the Netherlands, and by extension that of BNG Bank, from AAA to AA+. This lowering had no noticeable effect on the cost of raising funding. Credit rating agencies Moodys and Fitch kept their ratings for the State of the Netherlands and BNG Bank unchanged at AAA.

CREDIT RISK

DEFINITIONS

Credit risk is defined as the chance of losses in the event a counterparty is unable to meet its (financial) obligations and includes counterparty risk, concentration risk and settlement risk.

- Counterparty risk: the chance of losses if a party defaults on payments resulting from a financial transaction at the moment the payments are due to be executed.
- Concentration risk: the extent to which a bank's exposure is spread over the number and variety of countries, sectors, and parties.
- Settlement risk: the chance of losses if a party fails to meet the terms and conditions of a contract (or group of contracts) with the other party on the specified settlement date.

GENERAL

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

- The Executive Board determines the relevant lending framework.
- The Credit Committee decides on all loans and advances to clients 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, fit in the bank's commercial policy and whether or not entail an integrity risk.

The Credit Risk Assessment department and Risk Control department (at portfolio level) are responsible for assessing, quantifying and reporting on the credit risk involved. In the organization, these departments operate independently from the Public Finance and Treasury directorates, which are responsible for accepting the credit risks.

Hereunder follows a description of how the bank deals with the various forms of credit risk. The section 'Counterparty risk' takes a closer look at specific process elements, including the mechanism of the internal credit risk models and the provisions policy.

COUNTERPARTY RISK

The bank is exposed to credit risk in relation to its debtors, which are divided into statutory clients and financial counterparties.

STATUTORY CLIENTS

The bank's Articles of Association limit the granting of loans and advances to parties subject to some form of government involvement. As a result, the vast majority of the credit portfolio is comprised of loans to and/or guaranteed by the government. No individual credit risk assessment is performed given the virtual absence of credit risk within this solvency-free portfolio. However, periodic assessments are carried out of these sectors and the performance of the institutions that issue the individual guarantees or suretyships. On the other hand, loans and advances subject to solvency requirements are preceded by an extensive creditworthiness analysis.

- The Financial Analysis department, part of the Public Finance directorate, draws up the credit proposal on the instruction of the account manager. 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 procedure is followed. To that end, the bank has implemented a product approval process for managing the complexity 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. From the bank's credit risk policy the level of maximum credit risk is also derived, which the bank is prepared to accept for the client concerned. The credit proposal must be in accordance with this upper limit.
- The Credit Committee decides whether the credit is to be accepted or not. The Credit Committee is chaired by a member of the Executive Board and includes representation from the Public Finance directorate and the Credit Risk Assessment department. Where appropriate, the Treasury directorate may also be represented if a transaction in the investment portfolio requires the consent of the Credit Committee. If the Credit Committee is unable to form a unanimous opinion, the decision on the proposal is escalatedto the Executive Board.

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 by the Back Office department.
- The Mid Office department is responsible for the file management, including monitoring securities and covenants.
- The creditworthiness is assessed at least once a year, which involves an updating of the internal rating. This process is also handled by the Credit Committee.
- Loans and advances whose quality has fallen below specific standards are transferred to the Special Management group within the Credit Risk Assessment department.

FINANCIAL COUNTERPARTIES

A creditworthiness analysis will be conducted in order to determine the relevant limit for each financial counterparty. The bank only enters into transactions with financial counterparties that have been rated by an external rating agency, but this credit worthiness analysis includes also determining the bank's own internal rating. A limit is set on the basis of this analysis. BNG Bank applies netting agreements to minimize credit risk from financial counterparties with respect to derivatives. The bank also enters into bilateral collateral agreements with the financial counterparties.

CREDIT MODELS

The bank determines creditworthiness using internally developed rating models that allow the bank to conduct credit assessments partly on the basis of objectively observable criteria. Given the 'low default' character of the credit portfolio, expert models are utilized. Models have been developed 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 rating models are managed in conformity with the principles of formal model governance. This model governance is based on the requirements for reporting the requisite capital for credit risk under the Basel II pillar of the 'Foundation Internal Rating Based' (FIRB) approach, even though BNG Bank does not use this FIRB approach for its solvency calculation. Consequently, the Dutch Central Bank (DNB) did not carry out a formal assessment of the models.

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

INTERNAL RATING	DESCRIPTION
0	Loans and advances not subject to solvency requirements.
1 through 11	The credit risk is deemed acceptable. A regular review takes place each year.
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. A review takes place at least three times a year.
18 through 19	Special Management: there is a strongly heightened credit risk and/or the debtor repeatedly fails to fulfill the payment obligations and/or there is no expectation of continuity. A review takes place at least three times a year.

CONCENTRATION RISK

BNG Bank's lending activities are subject to a degree of concentration risk. This is inherent to the bank's mission: financing the Dutch public sector. A considerable portion of the bank's exposure is also related to public sector real estate. These risks are generally mitigated by government guarantees on loans granted and by the WSW (Social Housing) and WfZ (Healthcare) guarantee funds. Loans and advances subject to solvency requirements are governed by sector-specific policies and limits designed to minimize concentration risks.

The bank's financial counterparties also represent a concentration risk. With these parties interest rate and currency swaps are contracted to mitigate market risks. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it does business. These restrict the number of available parties, which is why a large number of transactions are conducted with these parties. Daily exchange of collateral help to mitigate the credit risk from these parties in terms of market value. However, operational risk remains if all contracts with a party would have to be replaced by contracts with other parties. This may entail significant costs. The central clearing of derivatives reduces the risk for individual counterparties but introduces a risk for the parties handling the clearing.

Concentration risk also comprises the country risk. BNG Bank's credit portfolio is strongly focused on the Netherlands, which is a reason for the bank to consciously include foreign securities in its liquidity portfolio. With respect to interest-bearing securities and the lending of credits, BNG Bank exclusively deals with countries within the EU and has set an overall limit on long-term exposures in foreign countries of 15% of its balance-sheet total. The bank also applies limits for individual countries which are partly determined on the basis of external country ratings. In many cases, such foreign credit lending is directly or indirectly guaranteed by the relevant governments. The deteriorating creditworthiness of euro zone countries is increasing the country risk. This has resulted in a downward adjustment of internal limits. The bank is gradually reducing its exposure in these countries. This is mainly done by ensuring that existing exposures are not replaced by new ones once they have expired. At the end of 2013, the bank's total foreign exposure (expressed in balance sheet value) totaled EUR 16.3 billion (2012: EUR 17.7 billion), of which EUR 10.5 billion consisted of long-term credits (2012: EUR 11.1 billion). This represents 8.4% of the balance sheet total (2012: 7.8%).

SETTLEMENT RISK

Exposure to settlement risks is mainly attributable to transactions with financial counterparties. In addition to hedging counterparty risk, the aforementioned netting and collateral agreements 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.

CREDIT RISK DEVELOPMENTS

The stabilization of the financial markets, combined with a limited demand from clients for lending subject to solvency requirements, has resulted in a stabilization of the quantity of credit risk in the bank's portfolio. Again in 2013, the bank barely suffered any credit losses from loans and advances.

INTEREST-BEARING SECURITIES (IBS) PORTFOLIO

BNG Bank maintains an IBS portfolio for liquidity management purposes. This portfolio consists of high-quality bonds, most of which are accepted as collateral by the central bank. The portfolio also serves to generate additional return on equity. The table below features an overview of the relevant assets on the basis of outstanding principal amounts, categorized by type and rating level. The assets are recognized in the balance sheet items 'Amounts due from banks', 'Loans and advances', 'Financial assets available-for-sale' and 'Financial assets at fair value through the income statement'.

All exposures reported under 'IBS with government guarantee' were issued to local government agencies or public organizations. These exposures are classified on the basis of 'ultimate rating', which means that they are featured under the guarantor's rating. The government guarantees concern guarantees provided by central or local authorities.

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

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

LONG-TERM EXPOSURES TO GIIPS COUNTRIES

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

						31-12-2013
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL
IRELAND*						
ABS/MBS				269	7	276
				269	7	276
ITALY						
Government bonds				197		197
ABS/MBS		45	100	2	66	213
IBS with government guarantee				21	25	46
		45	100	220	91	456

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* The Irish exposure consists of the securitization of claims in Germany, Spain and Portugal.

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					31-12-2013	
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
PORTUGAL						
ABS/MBS			39	29		68
Loans and advances					126	126
Covered bonds				25		25
IBS with government guarantee					131	131
			39	54	257	350
SPAIN						
Government bonds				50		50
ABS/MBS		103	95	374	197	769
Loans and advances				98	20	118
Covered bonds			397	662	50	1,109
IBS with government guarantee		8	3		46	57
Medium Term Notes					60	60
		111	495	1,184	373	2,163
TOTAL EXPOSURE GIIPS COUNTRIES		156	634	1,727	728	3,245

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

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* The Irish exposure consists of the securitization of claims in Germany, Spain and Portugal.

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

The long-term exposures to GIIPS countries consist of government bonds, covered bonds, Medium Term Notes, loans and advances to statutory clients and investments in the safest tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS). In 2013, exposure to the GIIPS countries was reduced by EUR 855 million through regular repayments of, in particular, Italian government bonds (EUR 646 million) and Spanish ABS/MBS (EUR 72 million). The fair value of the total exposures currently outstanding in GIIPS countries as at year-end 2013 rose by EUR 8 million to EUR 3,028 million compared to the end of 2012. This increase concerns positive market value movements mainly on Spanish exposures.

All exposures reported under the items 'Loans and advances' and 'IBS with government guarantee' were issued to local government agencies or public organizations. End of 2013, on two exposures in Spain, the bank took individual impairments of EUR 21 million (2012: null).

CREDIT RISK FOR FINANCIAL ASSETS

The following tables provide a quantitative overview of the credit risk at the end of 2013.

	31-12-2013	31-12-2012
	BALANCE SHEET VALUE	BALANCE SHEET VALUE
FINANCIAL ASSETS		
Amounts due from banks and Loans and advances	100,583	100,896
Financial assets at fair value through the income statement*	3,530	3,476
Financial assets available-for-sale	9,607	9,018
Other financial assets*	15,874	25,824
	129,594	**139,214**
* Including derivatives and market value adjustments hedge accounting ('SLI')	−16,947	−26,697
TOTAL	**112,647**	**112,517**

	31-12-2013		31-12-2012	
	BALANCE SHEET VALUE	IN PERCENT	BALANCE SHEET VALUE	IN PERCENT
BREAKDOWN BY MARKET SEGMENTS				
Public sector	37,934	34%	35,872	32%
Public housing	43,441	38%	42,812	38%
Healthcare	8,030	7%	7,956	7%
Energy, Water and Telecom	1,912	2%	2,054	2%
Transport, Logistics and the Environment	2,186	2%	1,921	2%
Education	1,064	1%	1,152	1%
Other	2,284	2%	2,357	2%
SUBTOTAL	**96,851**	**86%**	**94,124**	**84%**
Credit institutions	9,686	9%	11,310	10%
Other financial institutions	5,102	4%	6,165	5%
Other	1,008	1%	918	1%
TOTAL	**112,647**	**100%**	**112,517**	**100%**

Continued on next page

Continuation of previous page	31-12-2013		31-12-2012	
	BALANCE SHEET VALUE	IN PERCENT	BALANCE SHEET VALUE	IN PERCENT
OF WHICH SUBJECT TO SOLVENCY REQUIREMENTS				
Public sector	449	3%	522	3%
Public housing	841	5%	1,023	6%
Healthcare	2,580	16%	2,319	13%
Energy, Water and Telecom	1,866	12%	2,010	11%
Transport, Logistics and the Environment	940	6%	880	5%
Education	933	6%	1,022	5%
Other	1,621	10%	1,631	9%
SUBTOTAL	**9,230**	**58%**	**9,407**	**52%**
Credit institutions	2,696	17%	3,876	21%
Other financial institutions	4,058	25%	4,982	27%
Other	86	0%	82	0%
TOTAL	**16,070**	**100%**	**18,347**	**100%**

The majority of risks are concentrated in the market segments with exposures subject to solvency requirements. Almost all exposures to statutory clients subject to solvency requirements have been recurred by counterparties in the form of collaterals and securities. While these collaterals and securities do not lower solvency requirements, they are available for sale in the event of bankruptcy of a counterparty. The other exposures subject to solvency requirements relate to a select number of financial institutions, primarily due to the applicable collateral requirements. The exposures subject to solvency requirements also include 8 (2012: 11) counterparties whose individual exposures represent more than 10% of the bank's BIS regulatory capital.

MAXIMUM CREDIT RISK

The following table provides insight into the maximum credit risk of all financial assets – disregarding the fair value of all collaterals – in the event that the counterparties were to default on their obligations. These financial assets have been entered at balance sheet value, with the exception of contingent liabilities and irrevocable facilities, which have been entered at nominal value.

	31-12-2013	31-12-2012
Cash and balances with the central banks	1,467	2,834
Derivatives*	9,346	15,346
Amounts due from banks and Loans and advances	100,583	100,896
Financial assets at fair value through the income statement (excluding derivatives)	2,457	2,603
Financial assets available-for-sale	9,607	9,018
Contingent liabilities	188	289
Irrevocable facilities	5,925	7,370
TOTAL	**129,573**	**138,356**

* Excluding market value adjustments hedge accounting ('SLI')

The derivatives almost exclusively consist of interest rate swaps and cross currency interest rate swaps. The bank only enters into such contracts with financial counterparties that have a high level of creditworthiness. Exposure to credit risk has also been limited by means of netting and collateral agreements. As of 31 December 2013 the value of guarantees issued by central governments, the WSW and the WfZ concerning loans in the balance sheet item Loans and advances amounts to EUR 81,7 billion. The contingent liabilities and the irrevocable facilities are explained in note 34 and note 35, respectively. Note 36 shows the part of the financial assets that are not freely disposable.

TRANSFER OF FINANCIAL ASSETS WITHOUT DERECOGNITION

The following table shows the balance sheet values of the financial assets that were transferred but not derecognized and related financial liabilities. The financial assets are not removed since BNG Bank retains the credit risks and the rights to the underlying cash flows.

BNG Bank has no financial assets in its portfolio that were transferred and derecognized, in which it has a continuing involvement.

		31-12-2013		31-12-2012	
ASSETS		INTEREST-BEARING SECURITIES SOLD IN TOTAL RETURN SWAPS	INTEREST-BEARING SECURITIES SOLD IN REPURCHASE TRANSACTIONS	INTEREST-BEARING SECURITIES SOLD IN TOTAL RETURN SWAPS	INTEREST-BEARING SECURITIES SOLD IN REPURCHASE TRANSACTIONS
Financial assets available-for-sale	NOTE 5	–	2,557	671	567
TOTAL		–	2,557	671	567
LIABILITIES		TOTAL RETURN SWAPS	REPURCHASE TRANSACTIONS	TOTAL RETURN SWAPS	REPURCHASE TRANSACTIONS
Amounts due to banks	NOTE 10	–	2,581	651	561
TOTAL		–	2,581	651	561

At year-end 2012, a total value of EUR 671 million in bonds included in the balance-sheet item Financial assets available-for-sale (note 5) were sold, while simultaneously entering total return swaps worth EUR 651 million. As in 2012, there were no new transactions in 2013, and all total return swaps were terminated over the course of 2013.

As at year-end 2013, the balance-sheet value of the item Financial assets available-for-sale includes EUR 2,557 million (2012: EUR 567 million) in bonds that were sold in repurchase transactions. At year-end 2013, the value of these repurchase transactions amounted to EUR 2,581 million (2012: EUR 561 million). Both the total return swaps and the repurchase transactions are included in note 10 Amounts due to banks.

CREDIT EQUIVALENTS OF DERIVATIVES ON THE ASSETS SIDE OF THE BALANCE SHEET

The credit risk from derivatives is relatively small despite the fact that principal amounts totaled EUR 225 billion as at year-end 2013 (2012: EUR 229 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 lose profit – are relevant in this regard. The principal amounts are also multiplied by percentages based on the specific product and its maturity period. The sum of these two values (credit equivalent) provides an indication of the credit risk. At year-end 2013 the risk-weighted credit equivalent of the derivatives portfolio totaled EUR 880 million (2012: EUR 1,067 million).

	31-12-2013	31-12-2012
CREDIT EQUIVALENTS		
Interest contracts	1,198	1,568
Currency contracts	643	1,474
TOTAL	**1,841**	**3,042**
Less: Cash collateral received	336	1,260
TOTAL AFTER DEDUCTION OF CASH COLLATERAL	**1,505**	**1,782**

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

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

BNG Bank has entered into 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 had met the balance sheet netting conditions and if the collateral agreements had been taken into account. In 2013, the net derivative exposure stated as assets in the balance sheet fell by EUR 328 million to EUR 806 million.

		GROSS VALUE OF FINANCIAL ASSETS OR LIABILITIES BEFORE BALANCE SHEET NETTING	GROSS VALUE OF FINANCIAL LIABILITIES TO BE NETTED	BALANCE-SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	VALUE OF FINANCIAL NETTING INSTRU-MENT THAT DOES NOT COMPLY WITH IAS 32 FOR NETTING PURPOSES	EXPOSURE BEFORE COLLATERAL	VALUE OF FINANCIAL COLLATERAL THAT DOES NOT COMPLY WITH IAS 32 FOR NETTING PURPOSES	NET EXPOSURE
								31-12-2013
Derivatives stated as assets*	NOTE 3+4+10	9,346	–	9,346	8,118	1,228	422	806
Derivatives stated as liabilities	NOTE 2+5+11+12	16,687	–	16,687	8,118	8,569	8,152	417
NET		−7,341	–	−7,341	–	−7,341	−7,730	389
								31-12-2012
Derivatives stated as assets*	NOTE 3+4+10	15,347	–	15,347	12,786	2,561	1,427	1,134
Derivatives stated as liabilities	NOTE 2+11+12	20,114	–	20,114	12,786	7,328	6,839	489
NET		−4,767	–	−4,767	–	−4,767	−5,412	645

* Excluding market value adjustments hedge accounting ('SLI') EUR 7,601 million (2012: EUR 11,350 million)

FINANCIAL ASSETS OF WHICH THE CREDIT CONDITIONS HAVE CHANGED AS A RESULT OF AN UNFAVORABLE FINANCIAL POSITION OF A DEBTOR (FORBEARANCE)

This relates to loans and advances carried at amortized cost price and off-balance facilities of which the credit conditions have changed in the debtor's favor, enabling the debtor to continue to meet his obligations. The following table does not include interest-bearing securities since the bank is unable to change the conditions in those cases. In 2014 new regulations governing this issue will be finalized, following which the bank will adapt its procedures where necessary. The bank expects that the new regulations will most of all clarify the criterion that the bank must also have suffered a (financial) disadvantage from the changes to the terms and conditions. Given the current lack of clarity, the bank has decided to present figures in the following table apart from this criterion.

			31-12-2013
INTERNAL RATING	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE	DISTRIBUTION IN PERCENT	EXPOSURE TO LOANS AND ADVANCES WITH CHANGED CONDITIONS
0 (no solvency requirements)	57,572	55%	–
1 through 11	42,226	41%	–
12 through 13	2,864	3%	145
14 through 17	285	0%	155
18 through 19	657	1%	61
TOTAL	103,604	100%	361

The financial assets of which the contractual terms have changed as a result of an unfavorable financial position of a debtor amounted to EUR 361 million as at 31 December 2013. This accounts for 0.3% of the total loan portfolio and concerns 25 debtors. An amount of in total EUR 129 million, of which the contractual terms have been changed in favor of three debtors, has been guaranteed by WfZ or the WSW.

PROVISIONS POLICY

BNG Bank employs a number of triggers that may lead to an individual loan loss provision. These are as follows:

- An internal rating of 14 or higher results in a review to determine if there should be a provision.
- A default on a loan or advance. The applicable criterion is a payment arrears and/or breach of the contractual terms lasting more than 90 days.

The individual provision only relates to loans and advances subject to solvency requirements since loans and advances not subject to solvency requirements are free of credit risk owing to guarantees, collaterals, or by virtue of the status of the counterparty (in this case, local authorities, provinces, the Dutch State). Furthermore, the bank has a provision on portfolio level based on a so-called 'Incurred But Not Reported' (IBNR) model. This model is for loans and advances not subject to solvency requirements based on a risk premium for operational risk and for loans and advances subject to solvency requirements based on a calculation of expected losses.

LOANS AND ADVANCES OF WHICH THE CONTRACTUAL TERMS HAVE BEEN BREACHED AND/OR LOANS AND ADVANCES WITH AN INDIVIDUAL IMPAIRMENT

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

	2013	2012
Opening balance	38	26
Loans in default but for which no individual provision is required	22	14
Loans in default for which individual provisions have been arranged	36	1
Repayments on loans in default	−1	0
Write-downs	−14	−3
CLOSING BALANCE	**81**	**38**

In 2013, one party was in default though no individual provision was deemed necessary. Individual provisions were made for the outstanding debts of five counterparties in 2013, of which three were already in default in 2012. The debts of two other counterparties were written down in 2013. Movement in the incurred loss provision is explained in note 2.

MATURITY ANALYSIS OF PAST DUE FINANCIAL ASSETS WITHOUT INDIVIDUAL IMPAIRMENT

	31-12-2013	31-12-2012
Less than 31 days	0	1
31 through to 60 days	0	0
61 through to 90 days	0	0
Over 90 days	3	27
TOTAL	**3**	**28**

The past due assets relate entirely to the Loans and advances item (note 2).

FINANCIAL INSTRUMENTS BY CATEGORY

	31-12-2013						
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL
– Cash and balances with the central banks						1,467	1,467
– Amounts due from banks					363	8,146	8,509
– Financial assets at fair value through the income statement	2,457	1,073					3,530
– Other financial assets			8,273		7,601		15,874
– Financial assets available-for-sale				372	9,235		9,607
– Loans and advances					73,393	18,681	92,074
TOTAL ASSETS	**2,457**	**1,073**	**8,273**	**372**	**90,592**	**28,294**	**131,061**

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31-12-2013	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	TOTAL
– Amounts due to banks						3,939	3,939
– Financial liabilities at fair value through the income statement	1,952	1,601					3,553
– Other financial liabilities			15,086				15,086
– Debt securities					74,252	20,576	94,828
– Funds entrusted					5,345	4,688	10,033
– Subordinated debts						32	32
TOTAL LIABILITIES	1,952	1,601	15,086	–	79,597	29,235	127,471

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

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

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

The calculation of the market value of financial assets and financial liabilities at fair value through the income statement include a credit risk spread. Changes in value due to credit risk fluctuations are derived from changes in these spreads. The risk profiles of individual clients and financial instruments are periodically assessed. If necessary, the credit risk spread will be adjusted.

Movements in the market value of financial assets at fair value through the income statement as a result of adjusted credit-risk spreads totaled EUR 194 million negative (2012: EUR 195 million negative) and EUR 1 million positive over 2013 (2012: EUR 46 million positive).

An integral increase in the credit risk spread of +25 basis points as at year-end 2013 would cause the market value of the interest-bearing securities included in the financial assets at fair value through the income statement to fall by approximately EUR 51 million.

Movements in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit risk spreads in recent years totaled approximately nil (accumulated). An integral increase in the credit risk spread by +25 basis points as at year-end 2013 would cause the market value of the debt securities included in the financial liabilities at fair value through the income statement to rise by approximately EUR 54 million.

MARKET RISK

DEFINITIONS

Market risk is defined as existing or future threats to the bank's capital and results as a result of market price fluctuations. There are several forms of market risk (including replacement risk): interest rate risk, foreign exchange risk and fluctuations in credit and liquidity spreads.

- Interest rate risk is defined as the risk to annual results and capital resulting from unfavorable market interest rate fluctuations.
- Foreign exchange risk is defined as the risk to annual results and capital resulting from unfavorable exchange rate fluctuations.
- Spread risk is defined as the risk to annual results and capital resulting from unfavorable credit spread fluctuations and unfavorable liquidity risk spread fluctuations.

INTEREST-RATE RISK

BNG Bank applies an active interest rate position policy, aimed at achieving additional return on equity by anticipating interest rate fluctuations. The Asset & Liability Committee (ALCO) in which all Executive Board members participate and have the voting right, is responsible for implementing this policy. In addition to Executive Board members, ALCO also contains the managing directors responsible for Treasury, Public Finance and Economic Research and the head of Risk Control. Working on the basis of market forecasts from Treasury and Economic Research, ALCO periodically determines the bank's interest rate outlook and defines – within the predetermined framework – the limits within which the Treasury directorate will operate.

Risk Control is responsible for the independent monitoring of market risk and provides advice on organizing market risk management. The department prepares reports for ALCO and Treasury and provides risks analyses and advice, both proactively and upon request. The Treasury directorate is responsible for day-to-day interest rate risk management. This directorate is responsible for hedging the market risks resulting from commercial activities, and manages the bank's interest rate position. In order to ensure functional separation, gathering market information and the actual revaluation of financial instruments are the responsibility of the Processing directorate. Risk Control has to approve changes in respect of the system applied and the market information used, as well as valuation proposals for new transactions that do not fall under any prescribed standard. BNG Bank applies a broad range of risk standards and management systems in order to control its exposure to interest rate risks. In doing so, the bank applies methods regarded as best practices. If necessary, it will develop conceptual frameworks, models and systems. The key risk standards applied by BNG Bank consist of duration, susceptibility to interest rate fluctuations per time interval (delta) and Value at Risk (VaR). Together, these interest rate risk standards form a coherent whole which – when combined with other indicators – provide a basis for ensuring the transparency and manageability of risks. To this end, the bank prepares reports (in various degrees of detail and at various frequencies) for a range of target groups.

To a limited extent, techniques such as scenario analysis and stress testing are also applied to assess market value changes as a result of major interest rate shocks. The outcomes serve as a supplement to the standards used to assess risks under 'normal' market conditions. BNG Bank mainly applies scenario analysis and stress testing in order to gain deeper insight into the correlations between interest rate fluctuations and market value. A common scenario used to gain insight into the type of risks that occur under extreme conditions is an instantaneous parallel interest rate shock of plus or minus 200 basis points. This scenario is also featured in Basel II regulations, where it is used to express the maximum relationship between market risk and equity. This is referred to as the outlier criterion. If the outlier criterion is exceeded, the regulator will conduct an investigation. The bank applies an internal threshold value which serves as an early warning. The bank's market risk policy also specifies that the duration of equity may not exceed 10.

The table below outlines the effect of an instantaneous interest rate shock at the end of 2013. It provides an overview of the resulting market value fluctuation. This fluctuation is then broken down in terms of its impact on the bank's results. Finally, the right column outlines the market value fluctuation's estimated impact on the bank's interest result after 2014. The impact before tax of an instantaneous interest rate shock on the market value at 31 December 2013.

	TOTAL MARKET VALUE MOVEMENT		IMPACT ON THE INCOME STATEMENT		IMPACT ON EQUITY		LONG-TERM IMPACT ON THE FUTURE INCOME STATEMENT	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012
INTEREST RATE SHOCK								
+200 bp	−158	−263	+14	+27	+1	−3	−173	−287
−200 bp	+163	+121	−20	−43	−1	+3	+184	+161
ACCOUNTING CLASSIFICATION			FAIR VALUE THROUGH THE INCOME STATEMENT		FAIR VALUE THROUGH EQUITY		AMORTIZED COST	

The bank's income statement and/or equity is only affected immediately by a limited part of these market value fluctuations. In the example described above (the 200 basis points scenario), EUR 14 million positive is immediately reflected in the annual result, with a EUR 172 million negative impact on future years. Of this total amount, EUR 1 million positive immediately ends up in the bank's equity. These figures are known as Earnings at Risk.

As the table shows, a relatively large market value shock due to interest rate fluctuations will only have a relatively minor effect on the bank's annual result. This is due to the fact that the majority of the bank's result is determined on the basis of amortized costs (interest rate), so that profits and losses due to interest rate fluctuations are spread out over a longer period in the result. This is the result of the hedging strategy and the corresponding hedge accounting system employed by the bank. Complex tailor-made products are sometimes less suited to this form of hedge accounting, whereby the value fluctuations of specific assets are classified at fair value through the income statement.

FOREIGN EXCHANGE RISK

The bank obtains a large portion of its funding in foreign currencies, and is thus exposed to major potential foreign exchange positions. The bank's policy specifies that all foreign exchange risks should be hedged in full. Incidental foreign exchange positions may occur in certain cases where it is not cost-efficient to hedge these risks.

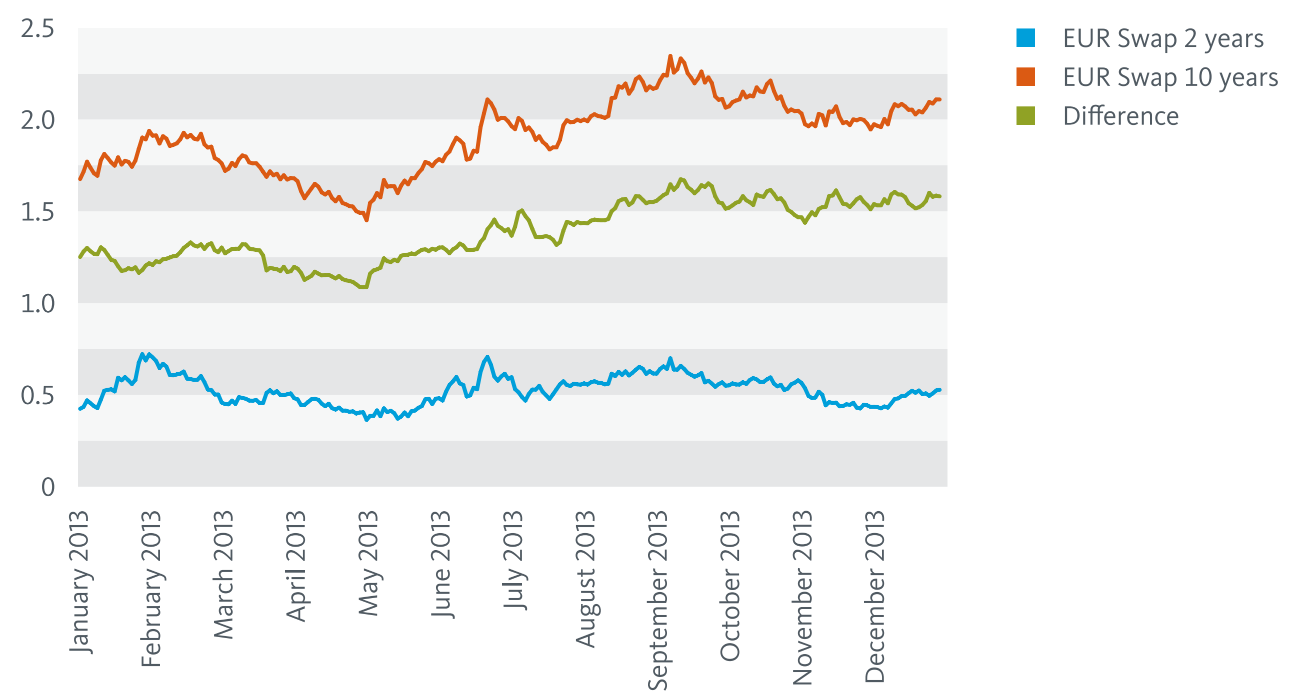
CREDIT SPREADS, LIQUIDITY SPREADS AND INTEREST RATE RISK MANAGEMENT

BNG Bank's interest rate position is determined over its entire portfolio of assets and liabilities. The interest rate position is valued on the basis of a yield curve made up of market-based swap rates plus credit and liquidity risk spreads and discounts. Due to their relatively safe nature, the interest-bearing securities on BNG Bank's balance sheet traditionally had extremely low credit and liquidity risk spreads in comparison with this swap curve. These spreads have widened however since 2008, thus making it more complicated to manage the bank's interest rate position. In response to this development, the bank is currently applying additional information to analyse its interest rate position with and without risk spreads. Interest rate risks are still capped on the basis of market prices and including the aforementioned risk spreads and discounts.

MARKET RISK DEVELOPMENTS

Although the markets were relatively more stable in 2013 than in the preceding years, the bank again decided to exercise restraint in its position policy, keeping the interest rate position in terms of duration low throughout the entire year. This was in part related to the expectation that the interest rate curve would exhibit a rising trend for the longer maturities at a given point. 2013 was not an easy year for the bank to carry out its interest rate position policy. Not only did the curve most relevant to the bank, the European swap curve, exhibit more fluctuations, it inverted repeatedly, meaning that the different maturity segments rose and fell in sharp contrast to one another, causing the curve to become either more steeper or, indeed, flatter.

EUROPEAN SWAP CURVE



In conformity with the bank's policy, there was no open foreign exchange position during the entire year.

In 2013, a stress-testing program was drawn up that includes stress scenarios for market value risk. This stress-testing program will be further rolled out in 2014.

One of the principles underlying the bank's interest rate risk framework was that the bank's purchase and sales prices hover roundabout the Euro swap curve. This has however been far less the case since the start of the financial crisis. The markets emphasize more on the costs of liquidity than previously, leading to higher spreads, particularly in the longer maturities. The bank's interest rate framework will be adjusted accordingly. Financial instruments have also become more complex than before and interest rate risk management is subject to more regulatory requirements. A new draft framework has been drawn up for interest rate risk management. A project was launched in early 2014 to implement this framework. This project takes the form of a number of sub projects aimed at achieving initial results relatively quickly and mitigating the total project risk.

LIQUIDITY AND FUNDING RISK

DEFINITIONS

Liquidity risk is defined as the existing or future threat to the institution's capital and results due to a default at any given time on its payment obligations without incurring any unacceptable costs or losses.

- Short-term liquidity risk is defined as the risk that the bank will not be able to attract sufficient funds in the short term to meet its payment obligations.
- Refinancing or long-term liquidity risk is defined as the risk that the bank will not be able to attract any (or sufficient) funds to ensure that the continuity of its operations is not jeopardized due to fluctuations in its own creditworthiness.

LIQUIDITY

The strength of BNG Bank's liquidity position is partly due to the fact that its balance sheet is largely made up of assets accepted as collateral by the central bank. The bank's collateral pledged already ensures access to ample borrowing capacity. An increased portion of the bank's assets is also explicitly held for liquidity purposes (known as the liquidity portfolio).

In order to monitor its liquidity position, the bank maintains a liquidity expiration calendar that is updated on a daily basis, and prepares weekly multi-year liquidity forecasts. The bank's liquidity position is subject to a system of limits.

The bank's creditworthiness and good reputation ensure ample and continued access to the international financial markets even under difficult market conditions. BNG Bank's liquidity position is well within the requirements of existing and future regulatory standards. In addition to ensuring that the bank can meet its short-term payment obligations, BNG Bank's liquidity policy is also aimed at maintaining its excellent level of creditworthiness. To this end, the bank monitors its long-term liquidity needs. BNG Bank's multi-year liquidity position is determined on the basis of future cash flows. Funding shortages at year-end were within the bank's predetermined limits.

The Treasury directorate has been tasked with implementing the funding and liquidity policy. The Risk Control department independently reports to ALCO on the use of predetermined limits.

FUNDING

BNG Bank distinguishes between short-term and long-term funding. The following resources are available for short-term funding:

- Commercial Paper. The bank uses a European Commercial Paper (ECP) program of a maximum of EUR 20 billion and a US Commercial Paper (USCP) program of a maximum of USD 10 billion. Under normal circumstances, a substantial margin is maintained between the maximum room allowed under the program and the bank's actual usage.
- Repurchase transactions with interbank parties under a Global Master Repurchase Agreement (GMRA).
- Deposits from institutional money market parties.
- Refinancing operations from the ECB, if necessary.

The bank has virtually no retail deposits and, following the implementation of 'treasury banking' in late 2013, the bank is no longer able to use the deposits of municipal and provincial authorities.

The bank is primarily reliant on the capital market for its long-term funding requirements, and to that end employs the following programs/instruments:

- a Debt Issuance Program (DIP) of a maximum of EUR 90 billion; and furthermore
- the Kangaroo-Kauri-Program, specifically for the Australian and New Zealand market, of AUD 5 billion; and
- Samurai shelf registration and Uridashi shelf registration, specifically for Japanese investors.

For reasons of diversification, the bank also uses the following:
- Using instruments from the liquidity portfolio as collateral.
- Guaranteed Investment Contracts (GICs).

DEVELOPMENTS

The stabilization, and the consequent partial normalization, of the markets have resulted in the price of short-term funding becoming less attractive for the bank, while that of long-term funding has become more attractive as a result of changed liquidity risk spreads. BNG Bank is able to operate extremely effectively on both the money market and the capital market. The USCP program for drawing short-term funding in dollars, launched with a view to extending diversification, got off to a good start. The program has a scope of a maximum of ten billion, of which around five billion has been drawn, thereby reducing the bank’s use of the ECP program. On balance, the bank’s long-term funding deficit was reduced by drawing proportionally more long-term funding than in previous years.

BNG Bank has further developed its liquidity policy as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). To be prepared for future market disruptions, the funding contingency plan has been rewritten and triggers defined and put into operation that will alert whenever changing market circumstances may signal an imminent crisis.

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

The amounts featured in the table below represent all non-discounted future cash flows of financial assets and liabilities. For the maturity analysis of issued guarantees and irrevocable commitments, please refer to notes 34 and 35.

	UP TO 3 MONTHS	3 – 12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
					31-12-2013
Cash and balances with the central banks	1,467				1,467
Amounts due from banks	6,002	1,583	909	76	8,570
Financial assets at fair value through the income statement (excluding derivatives)	46	357	381	2,708	3,492
Financial assets available-for-sale	129	200	3,068	8,422	11,819
Loans and advances	8,346	10,267	40,407	59,995	119,015
Other assets	11				11
TOTAL ASSETS	**16,001**	**12,407**	**44,765**	**71,201**	**144,374**
Amounts due to banks	−1,787	−2,153			−3,940
Financial liabilities at fair value through the income statement (excluding derivatives)	−11	−20	−511	−2,962	−3,504
Debt securities	−11,229	−14,716	−47,836	−30,002	−103,783
Funds entrusted	−2,958	−365	−1,984	−10,648	−15,955
Subordinated debts	−1	−2	−8	−46	−57
Other liabilities	−65				−65
TOTAL LIABILITIES	**−16,051**	**−17,256**	**−50,339**	**−43,658**	**−127,304**

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	31-12-2013				
	UP TO 3 MONTHS	3 – 12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	4,294	6,060	19,992	20,430	50,776
Assets amounts payable	−3,418	−4,562	−14,880	−16,052	−38,912
ASSETS	**876**	**1,498**	**5,112**	**4,378**	**11,864**
Liabilities amounts receivable	6,606	7,398	20,500	33,017	67,521
Liabilities amounts payable	−7,525	−9,434	−28,250	−38,463	−83,672
LIABILITIES	**−919**	**−2,036**	**−7,750**	**−5,446**	**−16,151**
GRAND TOTAL	**−93**	**−5,387**	**−8,212**	**26,475**	**12,783**

					31-12-2012
	UP TO 3 MONTHS	3 – 12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	2,834	–	–	–	2,834
Amounts due from banks	7,188	407	2,435	617	10,647
Financial assets at fair value through the income statement (excluding derivatives)	66	76	727	2,829	3,698
Financial assets available-for-sale	789	654	2,128	7,105	10,676
Loans and advances	8,480	11,426	39,795	58,585	118,286
Other assets	15	–	–	–	15
TOTAL ASSETS	**19,372**	**12,563**	**45,085**	**69,136**	**146,156**
Amounts due to banks	−4,034	−1,090	−1,104	–	−6,228
Financial liabilities at fair value through the income statement (excluding derivatives)	−48	−293	−293	−910	−1,544
Debt securities	−10,154	−17,281	−50,664	−29,126	−107,225
Funds entrusted	−4,098	−841	−2,017	−10,703	−17,659
Subordinated debts	−1	−2	−9	−47	−59
Other liabilities	−75	–	–	–	−75
TOTAL LIABILITIES	**−18,410**	**−19,507**	**−54,087**	**−40,786**	**−132,790**

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	31-12-2012				
	UP TO 3 MONTHS	3 – 12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	4,120	10,359	30,913	23,858	69,250
Assets amounts payable	–3,143	–7,603	–21,804	–17,711	–50,261
ASSETS	**977**	**2,756**	**9,109**	**6,147**	**18,989**
Liabilities amounts receivable	9,049	4,676	9,219	27,510	50,454
Liabilities amounts payable	–10,026	–7,123	–18,722	–35,589	–71,460
LIABILITIES	**–977**	**–2,447**	**–9,503**	**–8,079**	**–21,006**
GRAND TOTAL	**962**	**–6,635**	**–9,396**	**26,418**	**11,349**

LIQUIDITY PORTFOLIO

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced under the CRD IV regulations. The LCR indicates to what extent BNG Bank has an adequate buffer of liquid assets in order to absorb a stressed net outgoing cash flow over a 30-day period. The NSFR is a ratio for liquidity over a one-year period. This ratio is calculated by dividing the available stable funding by the required stable funding. Both the LCR and the NSFR should be at least 100%. There is still uncertainty about the specification of the regulations for both these ratios. As at year-end 2012 and year-end 2013, BNG Bank comply with the minimum requirements based on the information available at the time.

BNG Bank has a liquidity portfolio for quickly accessing liquidity when conditions are stressed, without having to use the name BNG Bank in the market. This desire is originated primarily by prudential liquidity policy, but also by the obligation to fulfill the new regulatory requirements. Basel III have divided assets into two categories, namely Level I assets (the extremely high quality liquid assets) and Level II assets (the high quality liquid assets). Level II assets may account for a maximum of 40% of the value of the liquidity portfolio. The liquidity portfolio comprises the total LCR value from Level I assets (79%) and the total LCR value from Level II assets (21%).

At year-end 2013, the LCR value amounted to EUR 4.6 billion (2012: EUR 7.6 billion). The fall of EUR 3.0 billion was caused, on balance, by the use of liquid assets as collateral in repurchase and derivative transactions and the growth of this portfolio.

LCR-CLASS	REMAINING PRINCIPAL AMOUNT	REMAINING PRINCIPAL AMOUNT UNENCUMBERED	MARKET VALUE	LCR VALUE
				31-12-2013
Level I – Government	4,833	1,783	1,968	1,968
Level I – Supranational	2,368	1,558	1,638	1,638
Level II A – Government / Supranational	103	103	102	87
Level II A – Covered Bonds	495	495	550	467
Level II B – Corporates	235	235	258	129
Level II B – RMBS	392	392	386	290
TOTAL	8,426	4,566	4,902	4,579

LCR-CLASS	REMAINING PRINCIPAL AMOUNT	REMAINING PRINCIPAL AMOUNT UNENCUMBERED	MARKET VALUE	LCR VALUE
				31-12-2012
Level I – Government	3,575	3,175	4,114	4,114
Level I – Supranational	2,007	2,007	2,278	2,278
Level II A – Government / Supranational	204	204	176	150
Level II A – Covered Bonds	1,076	1,076	1,190	1,012
Level II A – Corporates	73	73	76	65
TOTAL	6,935	6,535	7,834	7,619

CLARIFICATION:

- LCR class: assets group within the liquidity portfolio in which the distinction between Level I (highly liquid) financial assets and Level II (liquid) financial assets was made;
- Remaining principal amount: outstanding principal amounts translated into EUR;
- Market value: market value of the unencumbered part of the liquidity portfolio;
- LCR value: LCR liquidity value of the unencumbered part of the portfolio.

As at 31 December 2013, a nominal amount of EUR 2.0 billion (2012: EUR 0.4 billion) in assets from this portfolio was used as collateral for repurchase transactions, while EUR 1.8 billion (2012: null) was used as collateral for derivative transactions.

ENCUMBERED FINANCIAL ASSETS AND LIABILITIES

In times of funding and liquidity needs, encumbered financial assets and liabilities 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 financial assets and liabilities given as collateral (encumbered) and the part of those financial assets and liabilities that are unencumbered.

		ENCUMBERED	UNENCUMBERED	31-12-2013
		ASSETS (LIABILITIES) AS COLLATERAL (RECEIVED)	ASSETS (LIABILITIES) NOT AS COLLATERAL (RECEIVED) AND AVAILABLE AS COLLATERAL	TOTAL
– Amounts due from banks	NOTE 2	7,384	1,125	8,509
– Financial assets at fair value through the income statement (loans and interest-bearing securities, excluding derivatives)	NOTE 3	53	2,404	2,457
– Financial assets available-for-sale	NOTE 5	5,645	3,962	9,607
– Loans and advances	NOTE 2	12,923	79,151	92,074
TOTAL ASSETS		**26,005**	**86,642**	**112,647**
– Amounts due to banks	NOTE 10	414	3,525	3,939
– Funds entrusted	NOTE 10	8	10,025	10,033
TOTAL LIABILITIES		**422**	**13,550**	**13,972**
TOTAL (NET)		**25,583**	**73,092**	**98,675**

		ENCUMBERED	UNENCUMBERED	31-12-2012
		ASSETS (LIABILITIES) PLEDGED AS COLLATERAL (RECEIVED)	ASSETS (LIABILITIES) NOT PLEDGED AS COLLATERAL (RECEIVED) AND AVAILABLE AS COLLATERAL	TOTAL
– Amounts due from banks	NOTE 2	8,239	1,932	10,171
– Financial assets at fair value through the income statement (loans and interest-bearing securities, excluding derivatives)	NOTE 3	55	2,548	2,603
– Financial assets available-for-sale	NOTE 5	1,496	7,522	9,018
– Loans and advances	NOTE 2	14,102	76,623	90,725
TOTAL ASSETS		**23,892**	**88,625**	**112,517**
– Amounts due to banks	NOTE 10	1,419	4,804	6,223
– Funds entrusted	NOTE 10	8	12,131	12,139
TOTAL LIABILITIES		**1,427**	**16,935**	**18,362**
TOTAL (NET)		**22,465**	**71,690**	**94,155**

Encumbered financial assets increased by EUR 2.1 billion to EUR 26.0 billion in 2013. For balance-sheet management purposes, interest-bearing securities from the liquidity portfolio were used as collateral for repurchase and derivative transactions more in the year under review than was previously the case.

Note 36 indicates the part of the financial assets that are encumbered.

OPERATIONAL RISK

DEFINITIONS

Operational risk is defined as the risk of losses due to shortcomings of internal processes, people and systems, or as a result of external events. 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 are adversely affected.
- Integrity risk is the risk that the institution's integrity is adversely affected by unprofessional or unethical behavior by the organization or its employees and clients in breach of applicable legislation 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.

GENERAL

Line management has primary responsibility as the 'first line of defense' for managing operational risk in day-to-day operations, in conformity with policy and arrangements. In this, it is supported by specialized departments, such as the Internal Control department (IAD). It is not possible, nor necessary, to fully mitigate operational risks. However, these risks must be made transparent and manageable.

Risk Control is the 'second line of defense' and is responsible for providing an overview and understanding of risks, as well as control guidelines. It supports and advises line management by facilitating periodical risk self-assessments and by analyzing operational risks. The risks, control measures and residual risks identified are documented.
The performance of internal and external background analyses improves the accuracy of the self-assessments.
Risk Control will propose supplementary control measures where necessary and monitor their timely implementation.
Residual risks will be communicated to the responsible managing director, who will, if applicable, advise the Executive Board on their acceptance.

The IAD conducts independent assessments in supplement to the self-assessments and risk analyses by Risk Control and the activities of Internal Control, in order to determine the existence and effect of control measures. The IAD thereby constitutes the 'third line of defense' and reports to the Executive Board. Each year, the managing directors and a number of department heads inform the Executive Board whether they are in control of the processes and risks for which they are responsible. The compliance officer conducts periodical integrity analyses.

BNG Bank registers all operational incidents upwards of a predetermined scale. To this end, employees involved in the operational process report the incidents to Risk Control. In addition to registering incidents, Risk Control conducts joint assessments with the various departments in order to determine whether the prevention of future incidents will require any adjustments to the process, systems or working methods. Every quarter, Risk Control reports to the Executive Board, management and the various department heads. It provides annual reports on incidents with a (potential) impact of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. The 2013 Incidents Report contained four incidents (compared to two in 2012), of which three were new incidents. The impact of these incidents on the bank's annual results in both 2012 and 2013 was limited.

IT RISK

The bank's information policy is based around an information system that allows the bank to continue executing its company strategy successfully. 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 resulting damage or restoring the desired situation as quickly as possible. To guarantee the continuity of IT support, a fallback test was also conducted in 2013. This successful 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 eventualities to hacking.

Although a small player, the bank must nevertheless satisfy all requirements to which large institutions are subject. Basic principles are services to clients, regulatory requirements and risk management. To limit the IT risk, the bank seeks to reduce the complexity of its IT systems. However, the dynamics of the financial markets and statutory and regulatory requirements constitute a challenge to the bank in this regard. For the bank's IT organization, this has resulted in a full project portfolio and considerable investment in hardware and software. The information management function was consolidated in 2013.

In 2013 also further improvements to the system for the administration of credit facilities and associated limits were achieved, including the administration and monitoring functionalities for collateral and terms and conditions. In 2014 this system will be further optimized, resulting in, among other things, the deployment of the system in the process flow and as a basis for legal documentation used for the facilities. This will allow the operational risks within the lending process to be even better managed.

Improving the internal risk systems, from both a functional and technical perspective, is already established as an ongoing process. Launched in 2013, this improvement process will continue to demand time, focus and investments in the years ahead. One of the spearheads for 2014 is to gain an enhanced insight into interest risk under the changing market circumstances.

As described in the section on outsourcing risk, the bank has partially outsourced its IT to Centric FSS. Effective cooperation between the bank and Centric FSS is essential in managing the IT risk. The bank has temporarily expanded the internal capacity of its IT department in order to handle the large number of projects. This expansion, which is expected to remain necessary in the years ahead, will negatively impact the bank's cost levels.

OUTSOURCING RISK

BNG Bank's most important outsourcing contract relates to the outsourcing of a large part of the bank's IT activities to Centric FSS. These activities include payment services and current account administration, the computing center 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 organization.

In the past year Centric FSS has largely completed the upgrade of the workstation infrastructure and the migration of the payment services platform. Both projects faced considerable delays. The upgrade of the payment services system caused in a few events a disruption to operational services, which had consequences for clients. Measures have since been taken to prevent any repeat of the disruption concerned. In 2013, the bank's payment services systems were adapted on schedule for SEPA. This involved a considerable effort on the part of the bank, partly in collaboration with the representative agencies, to ensure that the bank's clients were ready on time to implement SEPA.

IT support is crucial for a bank. This is why BNG Bank has a procedure in place for proper monitoring and evaluation of the service provider's services. The ISAE 3402 statement annually issued by Centric FSS is part of this procedure.

INTEGRITY RISK

Integrity is a key part of the operations. The BNG Company Code serves as a guideline for all actions undertaken by BNG Bank and its employees. The bank values ethical and reliable behavior over an exclusive focus on financial profit. The BNG Bank Company Code is published on the bank's website. The standards for ethical business practices were further elaborated based on the Banking Code and legislation on remuneration policy. New employees, recruited both internally and externally, are assessed on their integrity when they take up their duties.

The bank also applies ethical standards to the actions of its clients and suppliers. To this end, it has formulated regulations on the acceptance, identification and monitoring of clients and transactions as a part of Customer Due Diligence.

LEGAL RISK

The bank has a specialized legal department whose tasks and responsibilities include setting out arrangements with clients and other parties in legally sound agreements. To this end, standard contracts and stipulations 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 department.

The bank is working to further automate the administration of contractual stipulations in agreements with clients, with an intention to standardize the terms and conditions as much as possible. To this end, the internal (contract) models library is being further developed and updated, in the interest of the efficiency of the bank's lending activities. This will result in an operational process that involves as little manual activities as possible and to diminish the use of individual contracts to an absolute minimum. This process will continue in 2014.

In the event of complex (syndicated) transactions and in cases requiring specialist legal knowledge, the Legal Affairs department will engage external legal experts.

OPERATIONAL RISK DEVELOPMENTS

Operational risk has always been part of the manner the organization is managed. The bank is focusing more and more on operational risk and its management, and it is therefore part of the risk appetite framework.

As in previous years, the bank must implement major changes with a limited workforce. A major challenge is posed in particular by legislative and regulatory requirements and, by extension, the requirements of the various regulatory authorities. Furthermore, developments at our clients, such as treasury banking, the bank's duty of care and the developments in the financial markets are forcing the bank to make changes.

BNG Bank follows these developments and implements the necessary adjustments to systems and processes using its existing workforce and, increasingly, with the help of external hired staff. Such activities can sometimes cause delays in regular activities and scheduled projects. When changes turn out to be structural, the bank increases its workforce. As BNG Bank is a technology-intensive and knowledge-intensive business in which the staff's activities often cover various areas of expertise, the induction of new employees takes time. Management and employees will have to make major efforts also in the coming years to implement the necessary changes in the controlled manner desired by the bank.

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, stakeholders, reputation and business climate (including political climate). Strategic risk consists of the following aspects:

- Competitive risk is the risk that the bank's competitive and market position will be influenced by the activities, actions and/or decisions of new or existing competitors.
- Dependency risk is the risk that stakeholder influence and developments will result in a conflict of interests with the bank and/or affect the institution's financial position.
- Reputation risk is the risk that the bank's market position will deteriorate due to a negative perception of its image amongst stakeholders.
- Risks resulting from the business climate are risks due to environmental changes in terms of the economy, stock exchange climate, wage and/or purchasing power developments, broader society, politics and technology.

COMPETITIVE RISK, DEPENDENCY RISK AND BUSINESS CLIMATE

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 maximize their profits will thus enter this market on a limited scale. As a result, the bank's exposure to competitive risk is traditionally limited. In fact, a lack of competition has been a concern in recent years. Nevertheless, competition is expected to increase with the normalization of the markets. The huge amount of new regulations has led to substantial increase of cost and, as a result, decreasing efficiency from a financial perspective, something that is also being experienced by other banks. It is still unclear how the different business models of financial institutions are being affected to varying degrees, and whether this will change competitive position.

BNG Bank has a high dependency risk with respect to governmental developments. Developments initiated last year will be continued. The implementation of treasury banking is a fact. The cutbacks in the public sector continue.

Again in 2013, the business climate remained difficult. In late 2013, ratings agency S&P downgraded the State of the Netherlands from AAA to AA+. BNG Bank's own rating was likewise downgraded. It is essential for BNG Bank that the Dutch State's creditworthiness remains excellent, as the bank's rating can never exceed that of the Dutch State. The bank's aim to maintain its rating at the same level as that of the Dutch State is therefore the highest rating achievable. BNG Bank received its high ratings from the rating agencies because of its financial strength, its role within the public sector, the quality of its assets and the shareholder structure.

INVESTING RISK IN PARTICIPATING INTERESTS

BNG Bank incidentally invests modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects in its capacity as lender. In view of market conditions in the sector, these efforts are on hold since mid-2010. The bank has invested hardly any capital in such projects since.

REPUTATION RISK

BNG Bank is always looking for solutions that are in the client's interest. It considers this to be 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 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 its considers unsuitable for the relevant client. This mainly concerns smaller organizations of which the bank assumes that they lack the in-house expertise to assess – for example – the value development of financial instruments under stressful market conditions. 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 thus indirectly safeguards the bank's reputation.

CAPITAL AND SOLVENCY

SOLVENCY (BASEL II)

The rules of the Basel II Capital Accord applied to banks through to year-end 2013. This accord related to standards drawn up by the Basel-based Bank for International Settlements (BIS). BNG Bank employs the 'Standardized Approach' (SA) for credit risk and market risk. The bank applies the 'Basic Indicator Approach' for operational risk. The minimum percentages for total assets and core capital are 8% and 4% of the risk-weighted assets, respectively. In order to accomplish its mission, the bank applies a policy aimed at maintaining low funding costs. This can only be achieved by maintaining its high ratings. To this end, the bank's capitalization and dividend policy defines a minimum threshold for the BIS Tier 1 ratio (or core capital ratio) of 18%. BNG Bank has applied the self-imposed Tier 1 capital ratio of 18% for some years now. This ratio is also large enough to meet the requirements of Basel III. As the positive difference relative to other banks will decrease, the bank is aiming for a Tier 1 capital ratio that is higher than 18% for 2014 and beyond.

	31-12-2013		31-12-2012	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
BASEL II PRINCIPLES				
Total capital	922	2,810	938	2,576
BIS total capital ratio	8%	24%	8%	22%
Core capital (Tier 1 capital)	461	2,806	469	2,576
BIS core capital ratio (Tier 1 ratio)	4%	24%	4%	22%
Risk-weighted assets	N/A	11,530	N/A	11,729
Leverage ratio (LR)	N/A	2.3%	N/A	2.0%

CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	31-12-2013		31-12-2012	
	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENTS	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS
CREDIT RISK				
Standardized approach (divided by category)				
Local Governments	400	32	405	32
Institutions	428	34	599	48
Corporations	7,026	562	7,273	582
Associations, foundations, et cetera	632	51	673	54
Covered bonds	451	36	439	35
Securitizations	1,399	112	1,205	96
Participations in investment funds	126	10	107	9
Other	145	12	137	11
TOTAL CREDIT RISK	**10,607**	**849**	**10,838**	**867**
MARKET RISK				
Standardized approach	–	–	23	2
OPERATIONAL RISK				
Basic indicator approach	923	74	868	69
TOTAL	**11,530**	**923**	**11,729**	**938**

REGULATORY CAPITAL

	31-12-2013	31-12-2012
REGULATORY CAPITAL		
Share capital	139	139
Share premium reserve	6	6
Statutory reserves and reserves under the Articles of Association	601	571
Other reserves	1,889	1,670
Profit current financial year	283	332
Expected dividend payment	–71	–83
Deductible items	–41	–59
TIER 1 CAPITAL	**2,806**	**2,576**
Positive revaluation AFS equity	13	10
Subordinated debts	31	33
Deductible items	–40	–43
ADDITIONAL CAPITAL	**4**	**–**
QUALIFYING CAPITAL	**2,810**	**2,576**

IN ANTICIPATION OF CRD IV/CRR

A multitude of new regulations followed the publication of the Third Basel Accord, on which a part of the new regulations are based. In 2013, these regulations were legally incorporated through the Capital Requirements Directive IV (CRD IV) and the associated Capital Requirements Regulation (CRR). The CRD IV is to be incorporated in national legislation, with national discretions being permitted. This phase will in fact be skipped for the CRR as the content of this regulation will be incorporated directly into national legislation of all EU Member States. The CRR is known as the 'single rule book' as it precludes differences between the Member States. The CRR was published in the Official Journey of the European Union on 27 June 2013 and took effect on 1 January 2014. The CRD IV section was published simultaneously and sets out the steps towards incorporation in national legislation.

The publication of CRD IV has not brought clarity to all rules. The European Banking Authority (EBA) still needs to provide a technical explanation on the rulesin many areas. CRD IV will be implemented in phases, allowing its effects on the economy in general and the banking sector in particular to be monitored and the rules to be adjusted if necessary by raising or lowering the relevant requirements.

One of the most important elements of the new regulations relates to higher capital requirements for both risk-weighted assets and non risk-weighted assets in terms of the Tier 1 capital ratio (and related ratios) and the leverage ratio, respectively. A new element in the calculation of the Tier 1 capital ratio is the credit value adjustment (CVA) representing capital requirements resulting from the counterparty risk in relation to derivatives. BNG Bank is well in compliance with the requirements with respect to the Tier 1 capital ratio. The leverage ratio, on the other hand, constitutes a challenge. The CRR does not yet contain a minimum level, but the EBA is due to recommend one in 2016. Moreover, the CRR states that the EBA will take account of the various business models used in the banking sector when making its recommendation. The Basel accord refers to an undifferentiated 3 percent, which must be achieved no later than 1 January 2018. The bank has decided to take this percentage as an objective in its capital planning for the time being. Because this ratio includes 100% of all loans and advances, irrespective of their creditworthiness, the ratio will have a relatively profound impact on the bank. After all, lending largely consists of exposures granted to or guaranteed by Dutch authorities at national, provincial and municipal level with a risk weighting of 0%. In the so-called Basel III Migration Plan, the bank indicates to the Dutch Central Bank how it is to comply with this ratio. One of the consequences is that, beginning in the 2012 financial year, the dividend was reduced from a pay-out percentage of 50% to 25%. The possibility of attracting hybrid capital that qualifies as additional Tier 1 capital is also part of the migration plan. By taking these measures, the bank prevents threats to client lending due to constrictive capital ratios.

The ratios based on the Basel III principles are given below. The minimum norms required externally represent the desired final situation (2018).

	31-12-2013		31-12-2012	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
BASEL III PRINCIPLES (2018)				
Total capital	934	2,946	938	2,636
BIS total capital ratio	8%	25%	8%	22%
Common Equity Tier 1 capital	525	2,946	534	2,636
Common Equity Tier 1 ratio	4.5%	25%	4.5%	22%
Risk-weighted assets	N/A	11,669	N/A	11,877
Leverage ratio (LR)	tbd	2.4%	N/A	2.0%

CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	31-12-2013		31-12-2012	
	RISK-WEIGHTED ASSETS	CAPITAL REQUIREMENTS	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS
CREDIT RISK				
Standardized approach (divided by category)				
Local Governments	400	32	405	32
Institutions (incl. CVA charge)	567	45	747	60
Corporations	7,026	562	7,273	582
Associations, foundations, et cetera	632	51	673	54
Covered bonds	451	36	439	35
Securitizations	1,399	112	1,205	96
Participations in investment funds	126	10	107	9
Other	145	12	137	11
	10,746	**860**	**10,986**	**879**
MARKET RISK				
Standardized approach	–	–	23	2
OPERATIONAL RISK				
Basic indicator approach	923	74	868	69
TOTAL	**11,669**	**934**	**11,877**	**950**

REGULATORY CAPITAL

	31-12-2013	31-12-2012
REGULATORY CAPITAL		
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	180	103
Statutory reserves and reserves under the Articles of Association	601	571
Other reserves	1,889	1,670
Profit current financial year	283	332
Expected dividend payment	–71	–83
Deductible items	–81	–102
COMMON EQUITY TIER 1 CAPITAL	**2,946**	**2,636**
Supplementary Tier 1 capital	–	–
TOTAL TIER 1 CAPITAL	**2,946**	**2,636**
QUALIFYING CAPITAL	**2,946**	**2,636**

CAPITALIZATION POLICY

The capitalization policy is formed in the so-called Internal Capital Adequacy Assessment Process (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 the capital. As in previous years, a minimum value of 18% applies to the Tier 1 capital ratio. To ensure the quality of the capital remains high, a further internal principle has been defined whereby the total Tier 1 capital may consist of non-common equity capital elements, such as hybrid debt instruments, up to a maximum of 20%. At year-end 2013, the entire Tier 1 capital still consisted of paid-up capital and retained earnings. This may change in the years ahead given the developments surrounding the leverage ratio.

The bank has a Capital Budgeting and Financial Regulation Committee in which the parties are represented involved in the allocation of the available capital, the use of this capital, and the monitoring of that use. This committee, which is chaired by a member of the Executive Board, prepares the allocation of the capital ahead by the decision of the Management Board. With regard to Financial Regulation responsibilities, the committee monitors developments and takes action as necessary in order to prepare decisions and implement the relevant regulations.

The available capital is determined within the Pillar I and Pillar II restrictions of the Basel II Capital Accord, which relate to the regulatory capital and economic capital, respectively. Furthermore, the standards formulated in the bank's risk appetite serve as upper limits to the deployment of capital.

A capital allocation is defined for each risk type. The actual risks are not permitted to exceed the allocated amounts. The capital required for credit risk under Pillar I is determined on the basis of solvency weighting. The capital required for credit risk under Pillar II is determined using a model that calculates any expected and unexpected loss and which employs a reliability interval of 99.99% and a time horizon of one year. A high reliability interval has been selected to reflect the bank's ratings ambition. Another reason for choosing this high reliability interval is the uncertainty inherent in the expert models the bank must use given its limited number of client groups.

A confrontation between allocated capital and the actual use of capital occurs each month for Pillar I and Pillar II for each risk type. No capital limits were exceeded in 2013. As part of the ICAAP, a sensitivity analysis is performed on the required capital when conditions are stressed. The bank's ambition isto further develop this analysis into a broader scenario of simultaneously stressed factors.

There has been a public debate for some time on whether government bonds should remain not subject to solvency requirements. The so-called zero risk weighting of the Dutch State in terms of solvency is an important pillar under the bank's BIS ratio. The bank also views the credit risk as zero in economic terms under Pillar II of the capital rules of the Basel II Accord. Another weighting of loans and advances to the Dutch public sector or guaranteed by the Dutch public sector can have a significant impact on the Tier 1 capital ratio of BNG Bank. In that event, the bank also expects to be able to comply with the minimum requirements, although that will ultimately depend on weighting itself. ■

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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 principle is that the valuation must be viewed from the perspective of market parties, whereby only specific characteristics and limitations of the financial instrument may be taken into consideration. The fair value of financial instruments measured at fair value in the balance sheet is determined on the basis of quoted market prices, insofar as these financial instruments are traded in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices are a reflection of current and regularly occurring 'at arm's length' market transactions. 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 (level 1).

Financial instruments which are not traded in an active market, for which no market is maintained or for which there is no quoted market price in an active market are measured on the basis of quoted prices of comparable instruments (Level 2).

If quoted prices of comparable instruments are not available, the fair value is determined on the basis of valuation models and techniques that are customarily used in the financial sector. These are mostly models based on net present value calculations and option pricing models (Levels 2 and 3). Input for these models is based on objectively verifiable market prices (mid-market prices), forward pricing, yield curves in line with market conditions for discounting, correlations, volatilities, cross currency basis spreads, credit spreads (derived from the prices of credit derivatives (Credit Default Swaps)), counterparty creditworthiness and other factors, estimates and assumptions which market parties would use to determine the price (Level 2), or is largely based on non-observable market data (Level 3).

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 spread is dependent on the creditworthiness of the debtor, taking into account collateral received, guarantees and maturities. The risk profiles

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of individual clients and financial instruments are assessed at least once per quarter. If necessary, the credit spread will be adjusted. With regard to interest rate swaps whereby the bank does not have an agreement with the counterparty for the daily exchange of collateral, a Credit Valuation Adjustment CVA for the counterparty's credit risk is applied in the calculation of the market value. The liquidity spread depends on the degree of marketability of the instrument. In virtually all cases, the bank is reliant on theoretical valuations in respect of its debtors. The bank has grouped its receivables on the basis of comparability of credit risk and has allocated a risk-related spread to each group. In addition, the spread is dependent on the maturity of a financial instrument.

In respect of its own credit risk, the bank has set a Debit Valuation Adjustment (DVA) for liability derivatives and a Own Credit Adjustment (OCA) for instruments recognized under 'Financial liabilities at fair value through the income statement' at zero because of its excellent creditworthiness. Insofar as financial instruments have the character of a forward contract, official forward prices are used, including forward yield curves and forward exchange rates. In the case of complex instruments, the constituent parts of the instrument are measured separately on the basis of the aforementioned techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts.

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

- Cross-currency basis spread as the liquidity spread for the volatility risk attached to interest rate swaps involving two different currencies;
- CVA for swaps whereby the bank does not have an agreement with the counterparty for the daily exchange of collateral.

As a consequence of IFRS 13 and the changed market practice, the following improvements have been implemented from 2013:

- OIS discounting for interest rate swaps hedged by daily exchange of collateral;
- OIS discounting for cross-currency swaps whereby reliable OIS curves in the currency concerned are available.

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

	31-12-2013		31-12-2012	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances with the central banks	1,467	1,467	2,834	2,834
Amounts due from banks and Loans and advances	100,583	109,946	100,896	113,602
Financial assets at fair value through the income statement	3,530	3,530	3,476	3,476
Financial assets available-for-sale	9,607	9,607	9,018	9,018
Other financial assets*	15,874	8,273	25,824	14,474
TOTAL FINANCIAL ASSETS	**131,061**	**132,823**	**142,048**	**143,404**
Amounts due to banks and Funds entrusted	13,972	14,151	18,362	18,636
Subordinated debts	32	46	33	49
Debt securities	94,828	95,717	99,424	100,376
Financial liabilities at fair value through the income statement	3,553	3,553	2,730	2,730
Other financial liabilities	15,086	15,086	18,692	18,692
TOTAL FINANCIAL LIABILITIES	**127,471**	**128,553**	**139,241**	**140,483**

* The balance sheet value of the Other financial assets item includes a market value adjustment of EUR 7,601 million positive (2012: EUR 11,350 million positive) by virtue of portfolio fair value hedging, which relates almost entirely to the items Amounts due from banks and Loans and advances. This amount concerns the accounting recognition of the effective parts of the hedged market value movements. Please refer to note 32 for a description of the way in which market risks are hedged with derivatives.

FAIR VALUE HIERARCHY

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

- **LEVEL 1:** valuation based on (unadjusted) quoted market prices, where necessary of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices are a reflection of current and regularly occurring 'at arm's length' market transactions. The quoted market prices for financial assets and liabilities are based on mid-market prices.
- **LEVEL 2:** valuation based on a valuation technique using directly/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 value techniques whereby all significant input variables are directly or indirectly observable from market data.
- **LEVEL 3:** valuation based on valuation techniques using non-observable market data. This category includes instruments with a valuation technique that uses input variables that are not based on data observable in the market and whereby the not 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. In determining the fair value of level 3 assets and liabilities, BNG Bank employs a spread for the significant, non-verifiable input variables of between 40 basis points and 200 basis points.

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

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

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

* Excluding hedge accounting market value adjustments (‘SLI’)

SIGNIFICANT MOVEMENTS IN FAIR VALUE LEVELS

The increase of EUR 1,537 million in 'Financial assets available-for-sale' in Level 1 is attributable to new investments in Dutch and Belgian government bonds in order to increase the liquidity portfolio. The decrease of EUR 411 million in 'Financial assets available-for-sale' in level 3 is attributable to the expiration (contractual repayment) of a securitization of Dutch mortgages under the National Mortgage Guarantee scheme (NHG) with a nominal value of EUR 400 million. The decrease in 'Other financial assets' in level 2 may be viewed in combination with the decrease in 'Other financial liabilities' in level 2. On balance, there is a decrease of more than EUR 8.8 billion. This change is attributable to the fair value adjustments of derivatives involved in a hedge accounting relationship as a result of the rise in long-term interest rates.

TRANSFERS OF LEVELS 1 AND 2 ASSETS AND LIABILITIES

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

STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES

			2013
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR-SALE	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT
OPENING BALANCE	**1,123**	**632**	**−260**
Results through the income statement:			
– Interest result	14	3	−6
– Unrealized result on financial transactions	−13		1
– Realized result on financial transactions	0	0	0
	1	3	−5
Unrealized value movements via the revaluation reserve		3	
Investments	–	3	–
Cash flows	−63	−424	7
Participating interest reclassified to ‘Financial assets available-for-sale’		4	
Transferred to Level 2	–	–	–
Transferred from Level 2	–	–	–
Derivatives from active to passive and vice versa	−6		6
CLOSING BALANCE	**1,055**	**221**	**−252**

						2012
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		FINANCIAL ASSETS AVAILABLE-FOR-SALE		FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT
OPENING BALANCE		**883**		**616**		**−2**
Results through the income statement:						
– Interest result	17		10		−2	
– Unrealized result on financial transactions	37				−10	
– Realized result on financial transactions	2		0		–	
		56		10		−12
Unrealized value movements via the revaluation reserve				31		
Investments		–		–		–
Cash flows		−64		−25		2
Transferred to Level 2		–		–		–
Transferred from Level 2		–		–		–
Derivatives from active to passive and vice versa		248				−248
CLOSING BALANCE		**1,123**		**632**		**−260**

In 2013, one small investment was made in Level 3 items. This involves a purchase by BNG Vermogensbeheer of participating interests in a BNG Bankinvestment fund. The bank's stake in the associate TBCH fell from 25% to 13.6% in the first half of 2013. Since the bank's stake has fallen below 20%, this associate – with a book value of EUR 4 million – has been reclassified and transferred from the balance-sheet item Investment in associates and joint ventures to the balance-sheet item Financial assets available-for-sale. No items were transferred from Level 2 to Level 3, or vice versa, either in 2013 or throughout 2012. The Level 3 items primarily concern interest-bearing securities that are rarely traded in the market. Because there is no trade in these interest-bearing securities, the observable market data available for similar securities is not representative of the current fair value. The fair value of level 3 transactions is determined on the basis of observable market data adjusted by management assumptions concerning credit and liquidity risk spreads.

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

The sensitivity of the fair value to changes in the Level 3 input factors was determined by measuring the effect based on four parallel interest rate shifts. These input factors are not interdependent. This sensitivity analysis takes account of significant indiscernible input factors comprising liquidity, credit and inflation spreads. These input factors are not interdependent. The calculation method changed in 2013. Through to 2012 the sensitivity of complex level 3 transactions was calculated and presented at package level. This concerns transactions for which some input factors were offset against a derivative, serving to reduce the bank's economic risk. Effective this reporting year sensitivity has been calculated and presented on the basis of the individual components of the package, bringing about an increase in the effect of the movement of significant input factors per balance sheet item.

31-12-2013					
		IMPACT ON THE BALANCE SHEET VALUE OF AN INTEREST RATE SHIFT OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	1,055	−17	17	−174	174
Financial assets available-for-sale	221	0	0	−1	1
Financial liabilities at fair value through the income statement	−252	17	−17	173	−173
TOTAL	**1,024**	**0**	**0**	**−2**	**2**

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

BNG Bank hedges nearly all its interest rate risks through swaps. This means that fair value effects of interest-bearing securities caused by a change in the interest curve alone have a very limited impact on the bank's result and equity. On the other hand, interest rate shifts caused by a change in credit and liquidity spreads do have a direct impact on the result and the equity. An integral change in the credit risk spread by +10 basis points in the interest-bearing securities with Level 3 stated as assets in the balance sheet will cause the bank's result to fall by EUR 17 million.

FAIR VALUE HIERARCHY OF AMORTIZED COST TRANSACTIONS

The table below provides an overview of the way in which the fair value is determined for transactions recognized at amortized cost in the balance sheet on the basis of the hierarchical classification referred to above. The table does not include cash and balances with the central banks, cash collateral and current account balances owing to the highly short-term character.

	31-12-2013			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Amounts due from banks (excluding cash collateral and current accounts)		2,529		2,529
Loans and advances (excluding current accounts)		90,629	8,609	99,238
TOTAL FINANCIAL ASSETS AT AMORTIZED COSTS		**93,158**	**8,609**	**101,767**
Amounts due to banks (excluding cash collateral and current accounts)		3,440		3,440
Debt securities		95,717		95,717
Funds entrusted (excluding current accounts)			8,468	8,468
Subordinated debts			46	46
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COSTS		**99,157**	**8,514**	**107,671**

				31-12-2012
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Amounts due from banks (excluding cash collateral and current accounts)		3,409		3,409
Loans and advances (excluding current accounts)		92,415	8,675	101,090
TOTAL FINANCIAL ASSETS AT AMORTIZED COSTS		**95,824**	**8,675**	**104,499**
Amounts due to banks (excluding cash collateral and current accounts)		5,671		5,671
Debt securities		100,376		100,376
Funds entrusted (excluding current accounts)			10,275	10,275
Subordinated debts			49	49
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COSTS		**106,047**	**10,324**	**116,371**

The financial assets at amortized costs under level 3 mainly relate to loans and advances subject to solvency requirements to statutory clients of BNG Bank. 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 recognized under the balance sheet item Financial assets available-for-sale, to the extent revaluation is effected using non-observable market data. The financial liabilities at amortized cost under level 3 relate to privately withdrawn resources.

32 HEDGING OF RISKS WITH DERIVATIVES

BNG Bank applies economic hedging as part of its risk management strategy 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 principally 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. As a result of the changed valuation in 2013 of derivatives with daily exchange of collateral, BNG Bank changed over to multi-curve fair value hedge accounting in the year under review. The paragraph on accounting principles 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, including issues under the standardized Debt Issuance Program. 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.

As of 1 July 2011, BNG Bank also applies cash flow hedge accounting to virtually all long-term transactions in foreign currencies in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations. As a result of considerableuncertainties in the money and capital markets, mostly related to the European debt crisis, a shortage of funding in primarily US dollars arose for European financial institutions over the course of 2011. As a result, these parties were forced to attract the US dollars needed for their balance sheet management from the currency swap market. This development resulted in a strongly increasing dollar-euro basis swap spread. 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

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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. The US dollar cash flows in the contract continue to be based on the basis swap spread at inception and are, as described, an exact copy of the US dollar cash flows from the bond loan that is hedged by the swap. 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 realized result.

Nevertheless the bank is obligated under IFRS to recognize the change in the instrument's fair value in its accounts. Under IFRS, the effects of this accounting mismatch must be recognized in the income statement as value adjustments to derivatives. With the use of cash flow hedge accounting as of 1 July 2011, the effective part of the cash flow hedge is recognized 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. At year-end 2013, BNG Bank recognized EUR 332 million positive (2012: EUR 69 million negative) as effective value adjustment of hedging instruments in equity by virtue of cash flow hedging.

In portfolio fair value hedging (PH), the interest rate risks of a group of transactions is 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, the effectiveness of portfolio hedging, like that of micro hedging, has been almost perfect in recent years. To prevent higher complexity as well as additional hedging costs, choices were made in accordance with the bank's policy not to involve cash flows with a maturity of less than one year in portfolio hedging. The results arising from this policy are recognized in the income statement. Any ineffectiveness that occurs is also recognized in the income statement. The revaluation of hedged PH items is accounted for in the balance sheet item Other financial assets. In both types of hedge accounting, the derivatives in question are measured at fair value and included in the Other financial assets and Other financial liabilities 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. The fair value of the derivatives that are not involved in a hedge accounting relationship is stated in the balance sheet item Financial assets at fair value through the income statement if the value is positive, or the balance sheet item Financial liabilities at fair value through the income statement if the value is negative. For the few derivatives where this is the case, the economic hedged item is also designated as a financial asset at fair value through the income statement so that, on balance, the volatility of the result (due to interest rate and foreign exchange risks) is limited.

The derivatives are included in various balance sheet items, depending on their accounting treatment under IFRS. Derivatives are always recognized at fair value in the balance sheet. Derivative contracts with a positive fair value are stated as assets in the balance sheet while derivatives with a negative value are stated as liabilities.

	31-12-2013	31-12-2012
DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP		
Other financial assets*	8,273	14,474
Other financial liabilities	–15,086	–18,692
DERIVATIVES NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP:		
Financial assets at fair value through the income statement	1,073	873
Financial liabilities at fair value through the income statement	–1,601	–1,422

* Excluding hedge accounting market value adjustments (‘SLI’)

The notional amounts of the derivatives are listed below, categorized by balance sheet item and type of derivative.

	31-12-2013		31-12-2012	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
OTHER FINANCIAL ASSETS				
Swaps	81,238	8,273	96,896	14,474
	81,238	**8,273**	**96,896**	**14,474**
OTHER FINANCIAL LIABILITIES				
Swaps	115,014	−15,086	105,411	−18,692
	115,014	**−15,086**	**105,411**	**−18,692**
FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	8,792	1,000	8,308	814
Forwards	2,335	64	3,017	16
Options	360	9	389	43
	11,487	**1,073**	**11,714**	**873**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	5,127	−1,081	3,294	−888
Forwards	11,710	−298	10,685	−271
Options	748	−222	835	−263
	17,585	**−1,601**	**14,814**	**−1,422**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2013 this collateral amounted to EUR 422 million (2012: EUR 1,427 million).

33 RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

The Dutch State owns 50% of the outstanding shares of BNG Bank. Transactions with the State include publicly traded bonds. BNG Bank also extends loans and advances guaranteed by the State. In view of the nature of these transactions, they are not treated as transactions with related parties.

Mr. C. van Eykelenburg was granted a loan in 2008. The amount outstanding at year-end was EUR 705,847 (2012: EUR 707,964). The average interest rate on the loan is 4.3% (2012: 4.3%). The loan was granted under BNG Bank's standard staff terms and conditions.

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 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 bng.nl. The remuneration of the Executive Board consists of a fixed and a variable component. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the collective labor agreement for the general banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

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REMUNERATION AWARDED TO EXECUTIVE BOARD MEMBERS

(amounts in thousands of euros)

	FIXED REMUNERATION (A) 2013	FIXED REMUNERATION (A) 2012	VARIABLE REMUNERATION[1] (B) 2013	VARIABLE REMUNERATION[1] (B) 2012	TOTAL SHORT-TERM REMUNERATION (A+B) 2013	TOTAL SHORT-TERM REMUNERATION (A+B) 2012	PENSION CONTRIBUTIONS 2013	PENSION CONTRIBUTIONS 2012
C. van Eykelenburg	448	448	52	72	500	520	153	146
J.J.A. Leenaars	375	372	39	54	414	426	129	123
J.C. Reichardt	356	356	41	57	397	413	69	64
TOTAL	**1,179**	**1,176**	**132**	**183**	**1,312**	**1,360**	**351**	**333**

The income statement for 2013 includes EUR 2 million (2012: EUR 2 million) in remuneration and pension costs. No shares or options are awarded.

DEFERRED VARIABLE REMUNERATION	2013	2012	2011	2010[2]
C. van Eykelenburg	52	72	72	75
J.J.A. Leenaars	39	54	54	56
J.C. Reichardt	41	57	57	53
TOTAL	**132**	**183**	**183**	**184**

[1] 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 jeopardized 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 behavior.

[2] This part of the deferred conditional variable remuneration was paid out in January 2014 because of the achievement of the predetermined objectives.

The variable remuneration has been capped at 25% (2012: 35%) 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. Detailed information on this is included in the Report of the Supervisory Board to the shareholders. The achievement of the 2013 variable remuneration targets resulted in an allowance of 93% of the maximum variable remuneration (2012: 92%). The Executive Board members received an allowance for business expenses of EUR 3,900 in 2013 (2012: EUR 3,900). This allowance will not be adjusted in 2014.

In 2013, BNG Bank charged an amount of EUR 157,068 (2012: EUR 157,070) in crisis levy to the income statement that is related to the Executive Board's remuneration. The crisis levy is an additional employer's contribution and forms no part of the Executive Board's remuneration.

SUPERVISORY BOARD REMUNERATION

The remuneration of the Supervisory Board was amended by the General Meeting of Shareholders in 2011, effective from 1 January 2012. 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 & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chairman of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the statement 'Remuneration of Supervisory Board members'. The Supervisory Board members received an expense allowance of EUR 1,000 (2012: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit & Risk Committee, Market Strategy Committee) and EUR 250 (Remuneration Committee, Selection and Appointment Committee), respectively. Former Supervisory Board members received no remuneration. In 2013 and 2012, the bank did not charge any amount of crisis levy to the income statement that is related to the Supervisory Board's remuneration.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

(amounts in thousands of euros)*

	2013	2012
H.O.C.R. Ruding, Chairman	36	36
Mrs. S.M. Dekker, Vice-Chairman and Secretary	32	31
Mrs. Y.C.M.T. van Rooy, Retired Vice-Chairman and Secretary	–	9
R.J.N. Abrahamsen	–	10
H.H. Apotheker	26	26
Mrs. H.G.O.M. Berkers	12	35
T.J.F.M. Bovens	26	20
W.M. van den Goorbergh	35	35
Mrs. P.H.M. Hofsté	22	–
J.J. Nooitgedagt	29	22
R.J.J.M. Pans	26	26
A.G.J.M. Rombouts	–	9
Mrs. M. Sint	26	11
TOTAL	270	270

* Including additional allowances and and excluding expense allowances and VAT.

34 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 states contingent liabilities at the maximum accounting loss that would need to be compensated in the event of the counterparty defaulting.

	31-12-2013	31-12-2012
Contingent liabilities	188	289

35 IRREVOCABLE FACILITIES

This includes all irrevocable commitments which can lead to the granting of loans and advances, and is divided as follows.

	31-12-2013	31-12-2012
Master agreements concerning the unutilized part of credit facilities	3,997	4,502
Contracted loans and advances to be distributed in the future	1,928	2,868
TOTAL	5,925	7,370

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According to contract, distribution of these contracted loans and advances will take place as follows:

	31-12-2013	31-12-2012
Up to 3 months	905	1,190
3 – 12 months	762	1,146
1 – 5 years	261	532
TOTAL	**1,928**	**2,868**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 2.6% (2012: 2.6%). BNG Bank states contingent liabilities at the maximum accounting loss that would need to be compensated in the event of the default of the counterparty. These commitments are included in the interest rate risk management of the entire portfolio.

36 ENCUMBERED ASSETS

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 nominal values and the collateral values.

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TYPE OF COLLATERAL		31-12-2013 NOMINAL VALUE	31-12-2013 COLLATERAL VALUE	31-12-2012 NOMINAL VALUE	31-12-2012 COLLATERAL VALUE
Pledged to the central banks		12,796	8,806	14,144	9,830
Pledged to other financial institutions		15	23	15	24
Collateral provided in repurchase transactions	NOTE 5	2,742	2,929	550	567
Collateral provided in the form of securities	NOTE 5	2,003	2,169	–	–
Cash deposited in relation to derivatives	NOTE 2	5,982	5,983	6,838	6,838
ISSUED AS COLLATERAL		23,538	19,910	21,547	17,259
Cash received in relation to derivatives	NOTE 10	422	422	1,427	1,427
RECEIVED AS COLLATERAL		422	422	1,427	1,427
TOTAL		23,116	19,488	20,120	15,832

At year-end 2013, a nominal amount of EUR 2 billion net more in collateral had been provided. This rise was caused by more than EUR 4 billion in interest-bearing securities from the liquidity portfolio being provided as collateral in repurchase transactions and as collateral for derivative transactions. On the other hand, more than EUR 1 billion less was provided as collateral in loans and repurchase transactions to the Dutch Central Bank and EUR 1 billion less in collateral was also provided in relation to negative derivative positions (mostly swaps). This was primarily due to the fall in the fair value of the derivatives as the result of a sharp rise of the long-term interest rates in the final month of the year under review and the rise of the euro relative to the US dollar.

The bank received EUR 1 billion less in collateral for derivative positions with a positive value that are stated as liabilities in the balance sheet.

37 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.

38 EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that require disclosure or adjustments to the figures in the financial statements.

39 LONG-TERM CAPITALIZATION AND DIVIDEND POLICY

A review was carried out in 2006 to assess the desired and necessary capitalization of BNG Bank, partly in view of the bank's liability to pay corporate income tax as of 2005. This resulted in a long-term policy which prescribes a standard dividend payout percentage of 50% after taxes and minimum limits for the BIS Tier 1 ratio and the leverage ratio of 18.0% and 2.0%, respectively. If the ratios permit it, an additional payment chargeable to the freely distributable reserves can be made of a minimum of EUR 200 million and a maximum of EUR 500 million. This is on condition that it is clear from talks with the rating agencies that an additional payment will not negatively influence the bank's ratings and that a declaration of no objection is received from the Dutch Central Bank. Under Section 3:96 of the Dutch Financial Supervision Act (Wet op het financieel toezicht), BNG Bank must submit proposals for additional dividend payments to the Dutch Central Bank and may only pay out additional dividend after the latter's approval.

The capitalization and dividend policy must now be considered in light of the upcoming changes in Basel regulations that compel banks to retain more capital. The new regulations as well as the current capitalization, relative to the agreed minimum standards in the policy, resulted in the standard dividend payout percentage being lowered to 25% as of the financial year 2011. Moreover, there will be no more additional payments chargeable to the reserves. The lowering of the standard payout percentage basically applies to the entire transition period until 2018, but will be reconsidered as soon as clarity is obtained on the final shape and level of the leverage ratio, or in the unlikely event that expectations on growth and/or result are not met. BNG Bank is currently examining various other options that may enable it to comply in due course with the minimum external leverage ratio requirement of 3%.

40 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31-12-2013	31-12-2012
ASSOCIATES		
Transdev-BNG-Connexxion Holding BV, The Hague Participation in and funding of businesses in the broadest sense. This company holds 100% of the shares in Connexxion Holding NV.	–	25%
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 organizations, ranging from printing and mail services to payment-related, direct marketing and messaging services.	45%	45%
NV Trustinstelling Hoevelaken, The Hague Acceptance and administration of rights of pledge and other collaterals.	40%	40%

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	31-12-2013	31-12-2012
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 equal voting rights, which means that no single party has control.		
Ontwikkelingsmaatschappij Jachthaven Drimmelen CV, Drimmelen	50%	50%
Ontwikkelingsmaatschappij Jachthaven Drimmelen Beheer BV, Drimmelen	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV, Nederweert	50%	50%
Development and allocation of land for industrial estates		
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	80%	80%
Zenkeldamshoek Beheer BV, Goor	50%	50%
Development and allocation of land for industrial estates		
De Bulders Woningbouw CV	50%	50%
De Bulders Woningbouw BV	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij Westergo CV, Harlingen	41%	41%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		

Continued on next page

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	31-12-2013	31-12-2012
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Haventerrein Westzaan CV, Zaanstad	30%	30%
Bedrijventerrein Westzaan Noord CV, Zaanstad	40%	40%
Ontwikkelingsbedrijf Haventerrein Westzaan BV, Zaanstad	50%	50%
Development and allocation of land for industrial estates		
Ruimte voor Ruimte CV I, ’s-Hertogenbosch	24%	24%
Ruimte voor Ruimte CV II, ’s-Hertogenbosch	24%	24%
Ruimte voor Ruimte Beheer BV, ’s-Hertogenbosch	24%	24%
Development and allocation of land for residential construction		
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), 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		

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	31-12-2013	31-12-2012
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		
Stallingsbedrijf Glastuinbouw Nederland CV, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Beheer BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder CV, Bleiswijk	33%	33%
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder Beheer BV, Bleiswijk	33%	33%
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	29%	29%
ROM-D Beheer NV, The Hague	25%	25%
Development and allocation of land for residential construction and 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		

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	31-12-2013	31-12-2012
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Sportstad Heerenveen Grondexploitatie CV, Heerenveen	50%	50%
Sportstad Heerenveen Grondexploitatie BV, Heerenveen	50%	50%
Development and allocation of land and operation of sports fields		
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	50%	50%
Waalwaardwonen BV, Zaltbommel	50%	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		
Centrumplan Den Burg BV, Den Burg (Texel)	50%	–
OPP Texel Projecten BV	50%	50%
Development and allocation of land for residential construction (in liquidation)		

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	31-12-2013	31-12-2012
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Stadover Markt Beheer BV, Alkmaar	25%	–
Gem Nieuw Overstad CV, Alkmaar	13%	–
Development and allocation of land for residential construction and industrial estates (in liquidation)		
BiesboschMarinaDrimmelen Vastgoedontwikkeling CV, Drimmelen	50%	50%
BiesboschMarinaDrimmelen Vastgoedontwikkeling Beheer BV, Drimmelen	50%	50%
Construction of recreational housing (in liquidation)		
Vastgoedontwikkeling Handelskade OudeTonge VOF, Oude Tonge	50%	50%
Construction of recreational housing and shops		

SUMMARIZED FINANCIAL INFORMATION ON ASSOCIATES

TRANSDEV-BNG-CONNEXXION HOLDING BV, THE HAGUE

BALANCE SHEET	31-12-2013	31-12-2012
Total assets	–	32
Total liabilities	–	0
INCOME STATEMENT	**2013**	**2012**
Income	–	-21
Result for financial year	–	0

OTHER ASSOCIATES

BALANCE SHEET	31-12-2013	31-12-2012
Total assets	4	5
Total liabilities	2	3
INCOME STATEMENT	**2013**	**2012**
Income	8	4
Result for financial year	1	1

SUMMARIZED FINANCIAL INFORMATION ON JOINT VENTURES
BNG GEBIEDSONTWIKKELING BV PARTICIPATING INTERESTS

BALANCE SHEET	31-12-2013	31-12-2012
Fixed assets	6	1
Current assets	145	161
TOTAL ASSETS	**151**	**162**
Equity	48	63
Long-term liabilities	4	1
Short-term liabilities	99	98
TOTAL LIABILITIES	**151**	**162**
INCOME STATEMENT	**2013**	**2012**
Income	9	9
Expenses	17	11
RESULT FOR FINANCIAL YEAR	**−8**	**−2**

The Hague, 7 March 2014

EXECUTIVE BOARD

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

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN
MRS. S.M. DEKKER, VICE-CHAIRMAN (AND SECRETARY)
H.H. APOTHEKER
T.J.F.M. BOVENS
W.M. VAN DEN GOORBERGH
MRS. P.H.M. HOFSTÉ
J.J. NOOITGEDAGT
R.J.J.M. PANS
MRS. M. SINT

Company financial statements

COMPANY BALANCE SHEET

Amounts in millions of euros

	31-12-2013	31-12-2012
ASSETS		
Cash and balances with the central banks [1]	1,467	2,834
Amounts due from banks [2]	8,509	10,171
Financial assets at fair value through the income statement [3]	3,530	3,476
Other financial assets [4]	15,874	25,824
Financial assets available-for-sale [5]	9,592	9,004
Loans and advances [2]	92,044	90,699
Participating interests [6]	68	97
Property and equipment [7]	17	18
Other assets [8, 9]	51	71
TOTAL ASSETS	**131,152**	**142,194**
LIABILITIES		
Amounts due to banks [10]	3,939	6,223
Financial liabilities at fair value through the income statement [11]	3,553	2,730
Other financial liabilities [12]	15,086	18,692
Debt securities [13]	94,828	99,424
Funds entrusted [10]	10,024	12,124
Subordinated debts [10]	32	33
Other liabilities [8, 9]	265	227
Total liabilities	127,727	139,453
Equity [14]	3,425	2,741
TOTAL LIABILITIES AND EQUITY	**131,152**	**142,194**

The references refer to the Notes to the company financial statements.

COMPANY INCOME STATEMENT

Amounts in millions of euros

	2013	2013	2012	2012
– Interest income [15]	1,511		2,112	
– Interest expenses [16]	982		1,641	
Interest result		529		471
Results from participating interests [17]		2		2
– Commission income [18]	22		23	
– Commission expenses [19]	4		4	
Commission result		18		19
Result financial transactions [20]		−5		87
Other income [21]		1		0
TOTAL INCOME		**545**		**579**
– Staff costs [22]	32		31	
– Other administrative expenses [23]	23		23	
Staff costs and other administrative expenses		55		54
Depreciation [24]		2		1
TOTAL OPERATING EXPENSES		**57**		**55**
Impairments [25]		51		29
Bank levy [26]		33		32
PROFIT BEFORE TAX		**404**		**463**
Taxes [9]		−115		−129
NET PROFIT		**289**		**334**

The references refer to the Notes to the company financial statements.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2013			2012		
NET PROFIT			**289**			**334**
Reclyclable results recognized directly in equity:						
Changes in cash flow hedge reserve		401			213	
Changes in revaluation reserve for financial assets available-for-sale:						
– unrealized value movements	101			383		
– realized value movements transferred to income statement	−24			−8		
		77			375	
		478			588	
Non-reclyclable results recognized directly in equity:						
Movements to actuarial result		0			0	
RESULTS RECOGNIZED DIRECTLY IN EQUITY			**478**			**588**
TOTAL			**767**			**922**

COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

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	2013	2013	2012	2012
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax	404		463	
Adjustments for:				
– Depreciation	2		1	
– Impairments	51		29	
– Unrealized results through the income statement	32		–75	
Cash flow generated from operations		489		418
Changes in amounts due from and due to banks (not due on demand)	–464		–2,791	
Changes in loans and advances	1,326		2,672	
Changes in funds entrusted	–1,243		613	
Changes in derivatives	–124		–990	
Corporate income tax paid	–216		–28	
Bank levy paid	–33		–32	
Other changes from operating activities	–511		–531	
		–1,265		–1,087
TOTAL CASH FLOW FROM OPERATING ACTIVITIES *		**–776**		**–669**
CASH FLOW FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	–3,973		–2,140	
– Investments in associates and joint ventures	–3		–5	
		–3,976		–2,145
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	3,995		2,005	
– Property and equipment	–		–	
		3,995		2,005
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**19**		**–140**

* Interest received amounted to EUR 5,550 million (2012: EUR 5,811 million), while interest paid amounted to EUR 5,008 million (2012: EUR 5,295 million).

COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

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	2013	2013	2012	2012
CASH FLOW FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Debt securities	54,270		25,359	
– Financial liabilities at fair value through the income statement	21		–	
		54,291		25,359
Amounts paid on account of:				
– Debt securities	−54,405		−26,554	
– Financial liabilities at fair value through the income statement	−408		−56	
– Subordinated debts	−2		−65	
– Dividend	−83		−64	
		−54,898		−26,739
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**−607**		**−1,380**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**−1,364**		**−2,189**
Cash and cash equivalents as at 1 January		2,833		5,022
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**1,469**		**2,833**
Cash and cash equivalents as at 31 December are comprised of:				
– Cash and balances with the central banks		1,467		2,834
– Cash equivalents in the asset item Amounts due from banks		2		2
– Cash equivalents in the liability item Amounts due to banks		–		−3
		1,469		**2,833**

COMPANY STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR FAIR VALUE INCREASES	OTHER RESERVES	UNAPPRO-PRIATED PROFIT	TOTAL
BALANCE AS AT 1 JANUARY 2012	**139**	**6**	**–272**	**–282**	**0**	**1,877**	**415**	**1,883**
– Net profit							334	334
– Unrealized results			375	213				588
– Transfer to reserve for fair value increases					208	–208		–
– Dividend payment						–64		–64
– Appropriation from profit previous year						415	–415	–
BALANCE AS AT 31 DECEMBER 2012	**139**	**6**	**103**	**–69**	**208**	**2,020**	**334**	**2,741**
– Net profit							289	289
– Unrealized results			77	401				478
– Transfer to reserve for fair value increases					116	–116		–
– Dividend payment						–83		–83
– Appropriation from profit previous year						334	–334	–
BALANCE AS AT 31 DECEMBER 2013	**139**	**6**	**180**	**332**	**324**	**2,155**	**289**	**3,425**

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 participating interests are recognized at cost in the company financial statements. This leads to a difference in equity compared with the consolidated financial statements. In addition, there is a difference in the accounting method for dividends. At the time of receipt, dividends are recognized in the income statement in the Results from participating interests item.

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 decreases 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 currency and reporting currency of BNG Bank.

For purposes of comparison, the comparative figures have been restated where necessary. This is explained under the item concerned. ■

Notes to the company financial statements

Amounts in millions of euros

1 CASH AND BALANCES WITH THE CENTRAL BANKS

This item comprises all legal tender as well as cash balances and deposits held with the DNB and ECB.

	31-12-2013	31-12-2012
Current account balances with the central banks (due on demand)	1,467	834
Overnight deposits with the central banks (due on demand)	–	–
Short-term deposits with the central banks (not due on demand)	–	2,000
	1,467	**2,834**

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2 AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These items include all receivables from banks, the loans and advances measured at amortized cost, as well as interest-bearing securities, insofar as these are not traded on an active market.

	AMOUNTS DUE FROM BANKS		LOANS AND ADVANCES		TOTAL	
	31-12-2013	31-12-2012	31-12-2013	31-12-2012	31-12-2013	31-12-2012
Short-term loans and current accounts	2	2	5,203	5,687	5,205	5,689
Reverse repurchase transactions	2,009	2,235	501	501	2,510	2,736
Cash collateral	5,983	6,839	–	–	5,983	6,839
Long-term lending	17	28	83,502	81,174	83,519	81,202
Interest-bearing securities	–	151	549	674	549	825
Medium Term Notes	–	459	70	98	70	557
Reclassified available-for-sale investments	498	457	2,259	2,603	2,757	3,060
Incurred loss provision	–	–	−40	−38	−40	−38
TOTAL	**8,509**	**10,171**	**92,044**	**90,699**	**100,553**	**100,870**

	2013	2012
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	−38	−31
Additions during the financial year	−12	−8
Release during the financial year	2	–
Withdrawals during the financial year	8	1
CLOSING BALANCE	**−40**	**−38**

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3

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes assets specifically designated as measured at fair value with changes in fair value recognized through the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives	1,073	873
Loans and advances	915	973
Securities	1,542	1,630
TOTAL	3,530	3,476

The total redemption value of the loans and advances and securities at year-end 2013 is EUR 2,007 million (2012: EUR 2,161 million).

4

OTHER FINANCIAL ASSETS

This balance sheet item includes the fair value of derivatives involved in a hedge accounting relationship and the value adjustments concerning the effective part of the market value adjustments due to interest rate risks of assets hedged at a portfolio level.

	31-12-2013	31-12-2012
Derivatives involved in a portfolio hedge accounting relationship	3,348	4,651
Derivatives involved in a micro hedge accounting relationship	4,925	9,823
Market value adjustments of assets hedged at portfolio level	7,601	11,350
TOTAL	15,874	25,824

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5

FINANCIAL ASSETS AVAILABLE-FOR-SALE

This includes purchased fixed and variable rate bonds and other interest-bearing securities and equity instruments, insofar as they are not recognized in Financial assets at fair value through the income statement.

	31-12-2013	31-12-2012
Government	6,415	5,507
Supranational organizations	899	812
Banks	1,472	1,429
Other financial institutions	284	659
Non-financial institutions	428	531
Investments in participating interests	94	66
TOTAL	9,592	9,004

TRANSFERS WITHOUT DERECOGNITION

As at year-end 2013, the balance-sheet value of the item Financial assets available-for-sale includes EUR 2,557 million (2012: EUR 567 million) in bonds that were sold in repurchase transactions. At year-end 2013, the value of these repurchase transactions amounted to EUR 2,581 million (2012: EUR 561 million).

At year-end 2012,EUR 671 million in bonds were sold included in the balance-sheet item Financial assets available-for-sale, while simultaneously entering total return swaps worth EUR 651 million. Based on these total return swaps, BNG Bank retained the rights to the cash flows and the risks of the sold obligations. Consequently, these bonds were not removed from the balance sheet at year-end 2012. As in 2012, there were no new transactions in 2013, and all total return swaps were terminated over the course of 2013.

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6 PARTICIPATING INTERESTS

	INTEREST		COST PRICE	
	2013	2012	31-12-2013	31-12-2012
SUBSIDIARIES				
– BNG Vermogensbeheer BV, The Hague	100%	100%	2	2
– BNG Gebiedsontwikkeling BV, The Hague	100%	100%	64	61
– Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	1	1
		SUBTOTAL	**67**	**64**
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	1	1
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	0	0
– Transdev-BNG-Connexxion Holding BV, The Hague (TBCH)		25%	–	32
		SUBTOTAL	**1**	**33**
TOTAL SUBSIDIARIES AND ASSOCIATES		**TOTAL**	**68**	**97**

At the end of January 2013 the Dutch State, exercising a put option, sold the remainder of its shares in Connexxion Holding NV to Transdev-BNG-Connexxion Holding BV (TBCH). As a result, TBCH acquired 100% (2012: 66.67%) of the shares of Connexxion Holding NV. Pursuant to the right it was granted in 2007, BNG Bank decided not to take part in the purchase of these shares. This sale decreased the bank's shareholding in TBCH from 25% to 13.6%. The decrease of the bank's financial interest means that this participating interest is now classified in the 2013 balance sheet under 'Financial assets available-for-sale' (note 5) instead of 'Participating interests' (note 6).

For a description of the associates, please refer to note 40 of the consolidated financial statements.

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7 PROPERTY AND EQUIPMENT

	PROPERTY		EQUIPMENT		TOTAL	
	2013	2012	2013	2012	2013	2012
HISTORICAL COST						
Value as at 1 January	47	47	12	12	59	59
Investments	0	–	1	0	1	0
Disposals	–	–	–	0	–	0
Value as at 31 December	47	47	13	12	60	59
DEPRECIATION						
Accumulated depreciation as at 1 January	31	30	10	10	41	40
Depreciation during the year	1	1	1	0	2	1
Accumulated depreciation as at 31 December	32	31	11	10	43	41
BOOK VALUE AS AT 31 DECEMBER	15	16	2	2	17	18

ESTIMATED USEFUL LIFE	
Buildings	33⅓ years maximum
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

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8 OTHER ASSETS AND OTHER LIABILITIES

	31-12-2013	31-12-2012
OTHER ASSETS		
Deferred tax asset	–	–
Current tax asset	–	–
Other receivables	51	71
TOTAL OTHER ASSETS	**51**	**71**
OTHER LIABILITIES		
Current tax liability	13	111
Deferred tax liability	196	39
Employee benefits provision	2	2
Other commitments	54	75
TOTAL OTHER LIABILITIES	**265**	**227**

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For the deferred tax assets and liabilities, please refer to note 9. The other receivables are primarily composed of amounts receivable from lending to clients. The other commitments are primarily composed of amounts payable related to derivatives and lending to clients.

The employee benefits provision concerns a provision for an interest rate discount on mortgage loans to both active and retired BNG Bank employees. This provision has a long-term character. The elimination of the 'corridor approach' as a result of the revision of IAS 19 had an impact on the mortgage interest rate discount provision, whereby EUR 0.6 million in unrealized actuarial gains (before tax) was transferred from the provision to the equity ('Other reserves') as at 1 January 2013. At year-end 2013, an additional EUR 0.1 million in unrealized actuarial gains (before tax) was transferred from the provision to the equity ('Other reserves'). Deferred tax assets and liabilities have been recognized for these changes in equity. The comparative figures have been adjusted. As the additional disclosure requirements in respect of a defined benefit pension plan are not significant for the bank, given the nature and volume of the mortgage interest rate discount provision (as at 31 December 2013: EUR 2 million as at 31 December 2013), they have not been explained in more detail. The movements in the present value of the net liability in relation to the defined benefits relating to the mortgage interest rate discount are as follows:

	2013	2012
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	2
Movements in the provision	0	0
NET LIABILITY AS AT 31 DECEMBER	**2**	**2**

9 TAXES

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') for the period 2013 – 2014. The bilateral agreement ('vaststellingsovereenkomst') 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 fiscal result differs from the commercial result if, on balance, unrealized losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual fiscal profit up to the level at which the cost price is reached.

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

	2013	2012
Profit before tax	404	464
Tax levied at the nominal tax rate	–101	–116
Tax adjustment from previous years	0	–
Results from participating interests exempt from taxation	–6	–5
Non-deductible costs (bank levy)	–8	–8
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**–115**	**–129**
Nominal tax rate	25.0%	25.0%
Effective tax rate	28.6%	27.8%

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2013	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	2		−1	1
Financial assets available-for-sale	−64	−23		−87
Cash flow hedge reserve	23	−133		−110
TOTAL	**−39**	**−156**	**−1**	**−196**

2012	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment opening balance sheet	3		−1	2
Financial assets available-for-sale	0	−64		−64
Cash flow hedge reserve	94	−71		23
TOTAL	**97**	**−135**	**−1**	**−39**

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10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

This includes debts to banks, funds entrusted and subordinated debts, insofar as they are not embodied in debt securities.

	31-12-2013	31-12-2012
Current account	1,822	2,131
Deposits from banks	848	3,589
Other deposits	1,208	2,345
Cash collateral	422	1,427
Private borrowings	7,082	7,643
Total return swaps	–	651
Repurchase transactions	2,581	561
Subordinated debts	32	33
TOTAL	13,995	18,380

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

This item includes debt securities specifically designated as measured at fair value with changes in fair value recognized through the income statement, and derivatives not involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives	1,601	1,422
Debt securities	1,442	1,308
Private interest-bearing securities	510	–
TOTAL	3,553	2,730

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The total redemption value of the debt securities and funds entrusted at year-end 2013 is EUR 1,652 million (2012: EUR 1,054 million).

12 OTHER FINANCIAL LIABILITIES

This balance sheet item concerns the fair value of derivatives involved in a hedge accounting relationship.

	31-12-2013	31-12-2012
Derivatives involved in a portfolio hedge accounting relationship	11,795	18,074
Derivatives involved in a micro hedge accounting relationship	3,291	618
TOTAL	**15,086**	**18,692**

13 DEBT SECURITIES

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

	31-12-2013	31-12-2012
THIS BALANCE SHEET ITEM IS COMPRISED AS FOLLOWS:		
Bond loans and euro notes	81,723	89,308
Euro Commercial Paper	13,105	10,116
TOTAL	**94,828**	**99,424**

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14

EQUITY

Since BNG Bank has no minority interests, the entire company equity can be attributed to the shareholders. The items included in the company equity are explained below.

	31-12-2013	31-12-2012
Share capital	139	139
Share premium reserve	6	6
Statutory reserves:		
– Revaluation reserve	180	103
– Cash flow hedge reserve	332	−69
– Reserve for fair value increases	324	208
Other reserves	2,155	2,020
Unappropriated profit	289	334
TOTAL	**3,425**	**2,741**

SHARE CAPITAL

The authorized capital is divided into 100 million shares with a face 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 holds 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 2013.

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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 unrealized changes in fair value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognized in the Financial assets available-for-sale item. Upon sale of these assets, the associated cumulative result recognized in equity is transferred to the income statement. EUR 13 million (2012: EUR 12 million) of the Revaluation reserve was associated with equity instruments as at 31 December 2013.

CASH FLOW HEDGE RESERVE

With the use of cash flow hedging accounting, the possible variability in future cash flows is hedged. The effective part of changes in the fair value of derivatives, resulting from changes in the cross currency basis spread, is not recognized in the income statement but in the cash flow hedge reserve in equity. The maximum remaining maturity runs up to 27 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funding in foreign currency involved in hedge accounting. In determining the freely distributable profit (unappropriated profit), a negative cash flow hedge reserve must be offset against the freely distributable reserves (other reserves).

RESERVE FOR FAIR VALUE INCREASES

This reserve concerns the positive difference between the fair value and the amortized 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).

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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.

The consequence of the elimination of the ‘corridor approach’ in respect of defined benefit pension plans as of 1 January 2013 is that all actuarial results must be recognized directly in the equity and will never be recycled to the income statement in subsequent periods. This amendment has an impact on the mortgage interest rate discount provision, in that EUR 0.4 million in unrealized actuarial gains (after deferred tax liability) was transferred to Other reserves as at 1 January 2013. The comparative figures have not been adjusted accordingly owing to the small amount. At year-end 2013, an additional EUR 0.1 million in unrealized actuarial gains (after deferred tax asset or liability) was transferred from the provision to the equity (‘Other reserves’).

UNAPPROPRIATED PROFIT

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

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15 INTEREST INCOME

This includes the interest income from loans and advances, deposits and investments, as well as the results from financial instruments used to hedge interest rate and currency risks. In addition, other credit-related income received is included in this item.

	2013	2012
Financial assets at fair value through the income statement	61	70
Derivatives not involved in a hedge accounting relationship	260	171
Derivatives involved in a portfolio fair value hedge accounting relationship	−2,181	−1,722
Financial assets available-for-sale not involved in a hedge accounting relationship	7	21
Financial assets involved in a hedge accounting relationship	3,201	3,303
Financial assets at amortized cost	162	278
Other interest income	1	−9
TOTAL	**1,511**	**2,112**

In the 2013 interest income EUR 1.3 million (2012: EUR 1.0 million) interest revenues have been recognized for financial assets, subjected to impairment. This concerns loans and advances (note 2) and financial assets available-for-sale (note 5).

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16 INTEREST EXPENSES

This includes the cost of borrowing and related transactions, as well as other interest-related charges.

	2013	2012
Financial liabilities at fair value through the income statement	81	52
Derivatives not involved in a hedge accounting relationship	177	−34
Derivatives involved in a hedge accounting relationship	−1,995	−1,714
Financial liabilities involved in a hedge accounting relationship	2,367	2,638
Financial liabilities at amortized cost	352	680
Other interest expenses	0	19
TOTAL	**982**	**1,641**

17 RESULTS FROM PARTICIPATING INTERESTS

This item includes the results from participating interests.

	2013	2012
Associates	0	0
Subsidiaries	2	2
TOTAL	**2**	**2**

For a description of the associates and subsidiaries, please refer to note 6.

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18 COMMISSION INCOME

This item includes income received or to be received from services provided to third parties.

	2013	2012
BREAKDOWN OF THE COMMISSION INCOME:		
– Income from loans and credit facilities	12	14
– Income from payment services	10	9
TOTAL	**22**	**23**

19 COMMISSION EXPENSES

This item relates to fees paid or to be paid for services rendered by third parties in relation to loans and credit facilities and payment services.

20 RESULT FINANCIAL TRANSACTIONS

This item relates to realized and unrealized results from value movements of financial instruments measured at fair value, with changes in fair value recognized through the income statement. These are offset nearly entirely by movements in the market value of the relating derivatives. This item also includes the result from sales of financial assets available-for-sale. In addition, this item includes the market value movements due to the counterparty credit risk (Credit Valuation Adjustment) for interest rate swaps without a daily exchange of collateral. From 2012, the (very limited) foreign exchange results are included in the various elements of this item.

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	2013	2012
MARKET VALUE MOVEMENTS OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	−12	31
– Interest rate derivatives without daily exchange of collateral (CVA)	3	−11
– Structured loans	19	9
	10	**29**
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	−4,147	3,731
– Financial liabilities involved in a micro fair value hedge accounting relationship	6,164	−1,139
– Derivatives involved in a hedge accounting relationship	−2,058	−2,565
	−41	**27**
RESULT OF THE CHANGEOVER TO OIS VALUATION OF DERIVATIVES WITH DAILY EXCHANGE OF COLLATERAL	**−27**	**–**
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	**26**	**11**
OTHER MARKET VALUE MOVEMENTS	**27**	**21**
TOTAL	**−5**	**88**

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The result financial transactions in 2013 is positively influenced by, on balance, the decreased credit and liquidity risk spreads on interest-bearing securities and structured loans to governments and institutions in Europe and the decrease off the credit risk in derivative transactions with clients. Furthermore, the result financial transactions is positively influenced by the realized results on the sale of interest-bearing securities and the unrealized revaluation of derivatives which are not involved in hedge accounting. On the other hand, the result financial transactions has been occasionally negatively influenced by the changeover to OIS valuation of derivatives with daily exchange of collateral. Moreover, the significant increase in long-term interest rates in the last month of 2013 contributed to the relatively large negative unrealized market value movements from hedge accounting transactions.

21 OTHER INCOME

	2013	2012
THE OTHER INCOME CONSISTS OF:		
– Income from consultancy services	1	0
TOTAL	**1**	**0**

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22 STAFF COSTS

	2013	2012
THE STAFF COSTS CONSIST OF:		
Wages and salaries	22	21
Pension costs	4	3
Social security costs	2	2
Addition to provisions	0	0
Other staff costs	4	5
TOTAL	**32**	**31**

23 OTHER ADMINISTRATIVE EXPENSES

These expenses include, among other things, outsourcing costs, rent and maintenance costs of property and equipment, printing costs, training expenses and advertising expenses.

24 DEPRECIATION

A breakdown of this item is included in the note on Property and equipment (note 7).

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25 IMPAIRMENTS

The impairments in 2013 amount to EUR 51 million (2012: EUR 29 million).

	2013	2012
THE IMPAIRMENTS CONSIST OF:		
– Addition to the incurred loss provision for loans and advances	12	8
– Release from the incurred loss provision for loans and advances	–2	–
– Impairment of financial assets available-for-sale	21	–
– Impairment of associates and joint ventures	20	21
TOTAL	**51**	**29**

The changes in the incurred loss provision is included in the Loans and advances item (note 2).

The impairment of associates and joint ventures of EUR 20 million concerns impairment of the associate TBCH (see note 6). The devaluation of TBCH at the end of January 2013 is the result of exercising a put option on the shares of Connexxion by the Dutch State and the reduction of the shareholding from 25% to 13.6%. As a result of the reduction, the classification of TBCH as an equity instrument in the balance sheet is changed from ‘Associates and joint ventures’ (note 6) to ‘Financial assets available-for-sale’ (note 5). At the end of 2013, the bank wrote down TBCH's value as an equity instrument by EUR 8 million. Furthermore, the bank took an impairment of EUR 13 million for one Spanish mortgage-backed securitization.

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26 BANK LEVY

For a breakdown of this item, please refer to note 26 of the consolidated financial statements.

27 FEES OF EXTERNAL AUDITORS (AMOUNTS IN THOUSANDS OF EUROS)

The fees paid to external 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 external auditors for audits and audit related and non-audit related services is given below.

	2013	2012
Audit of the financial statements	351	372
Other audit related services	190	339
Other non-audit related services	16	21
TOTAL	**557**	**732**

28-40 OTHER NOTES

For the details of items 28 through 40, please refer to the notes of 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, please refer to note 33 of the consolidated financial statements.

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Return to page 247.

The Hague, 7 March 2014

EXECUTIVE BOARD

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

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN
MRS. S.M. DEKKER, VICE-CHAIRMAN (AND SECRETARY)
H.H. APOTHEKER
T.J.F.M. BOVENS
W.M. VAN DEN GOORBERGH
MRS. P.H.M. HOFSTÉ
J.J. NOOITGEDAGT
R.J.J.M. PANS
MRS. M. SINT

Other information

Independent auditor's report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2013 of N.V. Bank Nederlandse Gemeenten, The Hague. These financial statements comprise the consolidated and company balance sheet as at 31 December 2013, the consolidated and company income statement, the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements give a true and fair view of the financial position of N.V. Bank Nederlandse Gemeenten as at 31 December 2013 and of its result for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Executive Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code. ■

Amsterdam, 7 March 2014

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

Independent assurance report

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

SCOPE

We have performed a reasonable assurance engagement on the chapters ‘Strategy’, ‘Report of the Supervisory Board – corporate social responsibility aspects’ and ‘Sustainability’ and the appendices ‘CSR Policy BNG Bank’ and ‘GRI Index BNG Bank 2013’ (hereafter: the report). In the report, the management of BNG Bank gives an overview on the implemented policy, events, business operations and performances during 2013 in the area of Corporate Social Responsibility.

The report contains forward-looking information in the form of ambitions, strategy, plans, forecasts and estimates. The fulfilment of such information is inherently uncertain. For that reason, we do not provide assurance in respect of the assumptions and the achievement of forward-looking information.

The GRI Index 2013 (GRI Index BNG Bank 2013.pdf) and ‘CSR Policy BNG Bank.pdf’ as published on www.bng.com are an inseparable part of the report and are as such part of our assurance engagement. The other references in the report (to www.bng.com, external websites and other documents) are not part of our assurance engagement.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation of the report in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative, Application level A, the Guidance Note on Sustainability Reporting of the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving) and the reporting policy of BNG Bank as explained in the report, including the identification of stakeholders and the selection of material topics. The choices made by management regarding the scope of the report and the reporting policy are set out in the Reporting Parameters section of the GRI Index. Management is also responsible for such internal control as it determines is necessary to enable the preparation of the report such that it is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the report based on the assurance evidence obtained. We conducted our engagement in accordance with Dutch law, including the Dutch Standards 3410N, 'Assurance Engagements with respect to Sustainability Reports'. This requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the report is free from material misstatement.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. A reasonable assurance engagement also includes evaluating the appropriateness of reporting policies used and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion

- the report provides, in all material respects, an accurate and adequate representation of the policy of BNG Bank with regard to sustainability and the business operations, events and performances of BNG Bank during 2013 in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative, the Guidance Note on Sustainability Reporting of the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving) and the reporting policy of BNG Bank as explained in the report;
- the report is in accordance with the application level A of the Global Reporting Initiative as reported by BNG Bank. ■

The Hague, 7 March 2014

ERNST & YOUNG ACCOUNTANTS LLP
SIGNED BY R.J. BLEIJS

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 percent (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 percent (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. ■

Proposed profit appropriation

Amounts in millions of euros	2013	2012
NET PROFIT	**283**	**332**
THE PROFIT APPROPRIATION IS AS FOLLOWS:		
Appropriation to the Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	29	33
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	36	**40**
Appropriation to the Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	183	216
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	64	76
	247	**292**

BNG Bank's 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 advisor 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 empowered 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, subs 1 and 2, 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 will be guaranteed pursuant to a scheme, bye-law or law adopted by one or more of such bodies, for which purpose obligations are understood to include non-guaranteed obligations resulting from pre-financing or other financing which, after novation, will create obligations that will 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

- that execute a part of the governmental functionon the basis of a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c. ■

7 Appendices

A BNG Bank subsidiaries

BNG GEBIEDSONTWIKKELING BV 100%

Dr. Kuyperstraat 12
2514 BB The Hague
The Netherlands

MANAGEMENT BOARD
G.C.A. RODEWIJK

P.O. Box 16075
2500 BB The Hague
The Netherlands
Telephone +31 (0)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.

BNG VERMOGENSBEHEER BV 100%

Koninginnegracht 2
2514 AA The Hague
The Netherlands

MANAGEMENT BOARD

J.J.M. DE WIT
D. WIDIJANTO (effective 1 January 2014)
J.L.S.M. HILLEN (until 31 December 2013)

P.O. Box 16450
2500 BL The Hague
The Netherlands
Telephone +31 (0)70 3750 245
info@bngvb.nl

Objective:
To provide and develop specialized financial services in the fields of securities brokerage, consultancy, the management of investment funds with a Fido hallmark and customized asset management to and for public authorities and public sector institutions.

HYPOTHEEKFONDS VOOR OVERHEIDS-PERSONEEL BV (HVO) 100%

Koninginnegracht 2
2514 AA The Hague
The Netherlands

MANAGEMENT BOARD

MRS. P.J.E. BIERINGA
O. LABE

P.O. Box 30305
2500 GH The Hague
Telephone +31 (0)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 Dutch Banking Code Reference Table

The overview below indicates which part of the Annual Report contains information regarding the implementation of each principle of the Dutch Banking Code.

DUTCH BANKING CODE PRINCIPLE	ACCOUNTING INFORMATION
SUPERVISORY BOARD	
2.1.1 to 2.2.2	Report of the Supervisory Board
EXECUTIVE BOARD	
3.1.1 to 3.1.8	Report of the Supervisory Board
3.1.6	Risk Section
3.2.1 to 3.2.4	Report of the Executive Board, CSR Policy BNG Bank and GRI Index BNG Bank 2013
RISK MANAGEMENT	
4.1 to 4.3	Report of the Supervisory Board
4.4 to 4.5	Risk Section
AUDIT	
5.1	Corporate Governance
5.2 to 5.6	Report of the Supervisory Board
REMUNERATION POLICY	
6.1.1 to 6.4.2	Report of the Supervisory Board
6.4.3 to 6.4.4	Corporate Governance
6.4.5 to 6.4.6	Report of the Supervisory Board

C BNG Bank consolidated annual figures since 1915

Amounts in thousands of euros

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1915	204	20	0	277
1920	384	84	38	295
1925	1,767	1,767	77	3,533
1930	1,983	1,983	140	15,410
1935	2,900	2,900	231	22,183
1940	3,061	3,061	208	12,883
1945	3,061	3,061	249	10,520
1950	3,105	3,105	454	86,543
1955	3,133	3,133	908	566,825
1960	40,939	7,012	4,538	2,740,538

Continued on next page

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FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1965	45,378	7,465	8,168	4,271,975
1970	52,775	14,862	16,427	8,251,283
1975	67,568	29,655	88,489	15,025,688
1980	104,551	66,638	246,586	18,809,227
1981	111,948	74,035	284,250	20,563,058
1982	119,344	81,431	362,754	22,826,819
1983	126,741	95,141	436,537	23,018,006
1984	138,152	106,552	513,225	22,843,430
1985	143,857	112,258	592,637	24,492,553
1986	149,562	117,963	674,429	26,984,054
1987	155,268	123,668	752,796	30,411,173
1988	155,268	123,668	824,995	31,874,574
1989	155,268	123,668	892,191	31,954,215
1990	158,008	126,409	967,389	32,161,023
1991	158,008	126,409	1,011,728	31,079,730
1992	158,008	126,409	1,083,265	29,746,188
1993	158,008	126,409	1,152,996	33,147,989
1994	158,008	126,409	1,224,994	35,943,094
1995	158,008	126,409	1,305,757	39,664,778
1996	158,008	126,409	1,399,815	41,834,574
1997	158,008	126,409	1,547,432	43,497,010

Continued on next page

Continuation of previous page

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM BORROWINGS
1998	158,008	126,420	1,679,379	45,401,721
1999	158,008	126,420	1,860,763	47,667,792
2000	158,008	126,420	2,075,272	49,286,388
2001	139,227	139,227	2,139,103	52,564,243
2002	139,227	139,227	2,194,764	55,448,477
2003	139,227	139,227	2,159,527	58,671,294
2004	139,227	139,227	2,330,805	64,067,450
2005	139,227	139,227	2,832,809	72,647,410
2006	139,227	139,227	2,336,965	71,207,875
2007	139,227	139,227	1,815,926	69,039,722
2008	139,227	139,227	1,759,853	80,032,181
2009	139,227	139,227	1,974,507	82,638,729
2010	139,227	139,227	1,991,578	87,314,051
2011	139,227	139,227	1,693,749	95,884,733
2012	139,227	139,227	2,517,766	100,414,585
2013	139,227	139,227	3,220,121	91,421,723

* Since 2005 after withholding of corporate income tax. Because BNG Bank adopted the International Financial Reporting Standards (IFRS) for the financial statements as of 1 January 2005 the figures from 2005 onward are not completely comparable with earlier years.

Amounts in thousands of euros

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1915	57	0	653	2
1920	538	0	257	42
1925	5,149	3,511	3,553	155
1930	17,065	5,722	5,094	187
1935	24,815	7,633	3,311	322
1940	15,877	8,518	4,415	246
1945	13,384	22,262	9,101	232
1950	90,807	53,777	24,427	532
1955	572,623	66,767	47,818	832
1960	2,779,127	71,720	96,116	1,037
1965	4,301,094	281,075	101,298	2,027
1970	8,413,856	438,774	99,466	6,587
1975	15,229,918	600,179	195,233	28,850
1980	19,166,544	1,294,919	141,613	70,489
1981	20,999,362	1,304,916	194,746	76,847
1982	23,241,661	1,026,584	290,715	97,953
1983	23,406,090	963,080	417,796	91,597
1984	22,925,876	1,161,707	473,164	97,678
1985	24,655,812	1,254,453	619,518	100,996
1986	27,188,156	1,805,989	516,630	104,065
1987	30,600,152	1,686,531	442,082	101,762
1988	32,296,882	1,352,895	667,849	109,288

Continued on next page

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1989	32,489,741	1,666,878	908,875	104,285
1990	32,732,015	2,261,428	919,473	110,461
1991	33,724,611	2,181,086	1,417,843	86,041
1992	34,455,423	1,358,717	2,213,487	118,293
1993	37,818,157	1,483,964	2,625,294	115,437
1994	38,071,862	2,735,454	2,590,526	128,649
1995	40,761,488	2,137,899	2,587,148	137,191
1996	41,870,931	1,933,578	1,902,931	143,444
1997	43,335,947	2,656,811	1,597,669	153,752
1998	45,466,657	2,797,481	1,357,663	169,350
1999	47,171,383	3,082,766	2,111,858	230,081
2000	54,623,328	3,110,394	3,779,636	230,904
2001	59,446,888	3,994,986	8,504,975	249,000
2002	67,046,644	4,792,642	10,115,715	283,127
2003	72,859,621	4,558,707	12,789,138	303,627
2004	73,914,244	5,070,251	11,284,235	300,797
2005	76,019,286	6,947,752	7,155,594	310,833
2006	77,992,839	6,984,629	9,169,497	198,694
2007	78,826,312	10,349,820	13,658,775	195,418
2008	75,741,198	11,079,758	17,473,692	157,701
2009	77,915,557	9,939,636	17,721,605	277,589

Continued on next page

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
2010	90,389,403	12,390,256	18,678,225	256,763
2011	97,577,785	15,343,347	23,556,036	256,389
2012	99,392,923	14,858,192	19,069,006	331,912
2013	101,150,909	11,292,330	19,985,258	282,770

D BNG Bank shareholders as at 31 December 2013

55,690,720 SHARES	
Aa en Hunze	52,728
Aalburg	17,550
Aalsmeer	25,857
Aalten	19,305
Achtkarspelen	87,711
Alblasserdam	9,477
Albrandswaard	3,510
Alkmaar	175,890
Almelo	174,525
Almere	3,432
Alphen aan den Rijn	95,238
Ameland	3,120
Amersfoort	272,220
Amstelveen	143,520
Amsterdam	617,058
Apeldoorn	132,093
Appingedam	23,751
Arnhem	496,470
Assen	85,301
Asten	13,000
Baarle-Nassau	3,510
Baarn	46,800
Barendrecht	32,097
Barneveld	24,570
Bedum	5,265
Beek	11,544
Beemster	7,020
Beesel	66,300
Bellingwedde	12,597
Bergambacht	3,510
Bergeijk	80,886
Bergen (L)	10,530
Bergen (N.H.)	149,994
Bergen op Zoom	41,067
Berkelland	305,877
Bernheze	21,060
Bernisse	13,260

Continued on next page

Continuation of previous page

Best	24,570
Beuningen	14,040
Beverwijk	85,605
Binnenmaas	105,495
Bladel	62,790
Blaricum	5,967
Bloemendaal	21,060
Boarnsterhim	30,732
Bodegraven-Reeuwijk	76,830
Borger-Odoorn	80,340
Borne	107,172
Borsele	39,273
Boskoop	18,720
Boxmeer	38,660
Boxtel	53,385
Breda	257,439
Brielle	24,414
Bronckhorst	72,384
Brummen	702
Brunssum	86,658
Bunnik	3,000
Buren	23,953
Bussum	97,188
Capelle aan den IJssel	7,722
Castricum	40,872
Coevorden	94,926
Cranendonck	5,000
Cromstrijen	7,020
Cuijk	32,253
Culemborg	8,775
Dalfsen	33,735
Dantumadiel	12,285
De Bilt	218,673
De Marne	10,530
De Ronde Venen	37,323
De Wolden	31,122
Delft	47,385
Delfzijl	39,156
Den Haag	1,275,456
Den Helder	211,731
Deurne	99,840
Deventer	292,313
Diemen	8,775
Dinkelland	16,934
Doesburg	27,612
Doetinchem	62,634
Dongen	23,510
Dongeradeel	76,323
Dordrecht	233,142
Drechterland	15,756
Drenthe (province)	87,750

Continued on next page

Continuation of previous page

Drimmelen	36,426
Druten	9,477
Duiven	3,510
Echt-Susteren	21,411
Edam-Volendam	29,484
Ede	108,420
Eemsmond	21,060
Eersel	121,021
Eijsden-Margraten	52,455
Eindhoven	171,600
Elburg	76,830
Emmen	58,266
Enkhuizen	130,650
Enschede	200,343
Epe	60,879
Ermelo	75,075
Etten-Leur	9,828
Ferwerderadiel	5,967
Flevoland (province)	75,250
Franekeradeel	34,554
Friesland (province)	75,250
Gaasterlan-Sleat	6,669
Geertruidenberg	133,653
Gelderland (province)	87,750
Geldermalsen	28,665
Geldrop-Mierlo	30,186
Gemert-Bakel	45,474
Gennep	10,530
Giessenlanden	25,935
Gilze en Rijen	10,179
Goeree-Overflakkee	72,501
Goes	96,369
Goirle	12,636
Gorinchem	96,330
Gouda	82,446
Graft-De Rijp	7,020
Groesbeek	60,840
Groningen (municipality)	329,199
Groningen (province)	75,250
Grootegast	9,750
Gulpen-Wittem	26,040
Haaksbergen	35,958
Haaren	11,278
Haarlem	230,295
Haarlemmerliede en Spaarnwoude	62,790
Haarlemmermeer	60,372
Halderberge	43,524
Hardenberg	64,935
Harderwijk	58,968

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Continuation of previous page

Hardinxveld-Giessendam	31,356
Haren	9,126
Harlingen	31,200
Hattem	30,030
Heemskerk	7,722
Heemstede	122,421
Heerde	9,126
Heerenveen	56,355
Heerhugowaard	9,789
Heerlen	424,827
Heeze-Leende	10,020
Heiloo	36,000
Hellendoorn	24,180
Hellevoetsluis	6,240
Helmond	52,650
Hendrik Ido Ambacht	25,818
Hengelo	174,486
's-Hertogenbosch	139,659
Het Bildt	73,905
Heumen	151,515
Heusden	44,499
Hillegom	49,686
Hilvarenbeek	23,510
Hilversum	120,939
Hof van Twente	157,326
Hollands Kroon	60,294
Hoogeveen	17,550
Hoogezand-Sappemeer	31,161
Hoogheemraadschap Hollands Noorderkwartier	17,355
Hoorn	46,098
Horst aan de Maas	113,108
Houten	6,240
Huizen	85,956
Hulst	17,472
IJsselstein	4,563
Kaag en Braassem	121,719
Kampen	100,893
Kapelle	53,040
Katwijk	144,066
Kerkrade	183,300
Koggenland	29,016
Kollumerland en Nieuwkruisland	22,347
Korendijk	29,718
Krimpen aan den IJssel	32,799
Laarbeek	20,709
Landerd	29,094
Landgraaf	41,301
Landsmeer	24,453
Langedijk	6,318

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Lansingerland	15,015
Leek	28,041
Leerdam	17,550
Leeuwarden	116,142
Leeuwarderadeel	72,150
Leiden	347,646
Leiderdorp	97,968
Leidschendam-Voorburg	203,190
Lelystad	5,000
Lemsterland	31,746
Leudal	143,052
Limburg (province)	156,000
Lingewaal	17,550
Lingewaard	19,305
Lisse	18,252
Littenseradiel	8,736
Lochem	60,138
Loon op Zand	41,886
Lopik	26,442
Loppersum	24,102
Losser	17,550
Maasdonk	10,530
Maasdriel	20,770
Maasgouw	72,150
Maassluis	61,035
Maastricht	347,334
Marum	7,020
Medemblik	13,650
Meerssen	13,689
Menameradiel	24,375
Menterwolde	38,688
Meppel	18,915
Middelburg	49,296
Midden-Delfland	48,594
Midden-Drenthe	60,138
Mill en St. Hubert	5,265
Millingen aan de Rijn	8,736
Moerdijk	27,027
Molenwaard	35,022
Montferland	19,756
Montfoort	12,480
Mook en Middelaar	123,708
Muiden	3,510
Neder-Betuwe	18,246
Nederlek	33,150
Nederweert	14,040
Neerijnen	14,040
Nieuwegein	80,184
Nieuwkoop	36,348
Nijkerk	32,370
Nijmegen	193,479

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Noord-Beveland	6,520
Noord-Brabant (province)	40,000
Noordenveld	30,771
Noord-Holland (province)	610,350
Noordoostpolder	19,656
Noordwijk	12,636
Noordwijkerhout	8,775
Nuenen, Gerwen en Nederwetten	1,755
Nunspeet	75,075
Nuth	11,232
Oegstgeest	46,059
Oirschot	8,775
Oisterwijk	7,845
Oldambt	181,116
Oldebroek	9,750
Oldenzaal	17,550
Olst-Wijhe	18,252
Ommen	79,638
Onderbanken	8,775
Oost Gelre	51,363
Oosterhout	35,100
Ooststellingwerf	18,720
Oostzaan	24,765
Opmeer	19,188
Opsterland	66,651
Oss	60,645
Oud-Beijerland	5,265
Oude IJsselstreek	161,460
Ouder-Amstel	4,914
Ouderkerk	3,510
Oudewater	27,612
Overbetuwe	21,762
Overijssel (province)	87,750
Papendrecht	6,318
Peel en Maas	63,687
Pekela	26,130
Pijnacker-Nootdorp	57,564
Purmerend	7,020
Putten	10,530
Raalte	25,987
Reimerswaal	15,990
Renkum	89,739
Reusel-De Mierden	10,530
Rheden	186,966
Rhenen	61,035
Ridderkerk	89,115
Rijnwaarden	4,914
Rijnwoude	142,896
Rijssen-Holten	304,746
Rijswijk	165,945

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Roerdalen	17,199
Roermond	34,749
Roosendaal	56,862
Rotterdam	321,555
Rucphen	19,656
Schagen	55,497
Schermer	7,020
Scherpenzeel	3,510
Schiedam	326,352
Schiermonnikoog	7,020
Schijndel	28,782
Schinnen	7,020
Schouwen-Duiveland	23,790
Simpelveld	6,630
Sint-Anthonis	12,285
Sint-Michielsgestel	21,060
Sint-Oedenrode	64,857
Sittard-Geleen	175,266
Skarsterlan	68,484
Sliedrecht	31,200
Slochteren	20,124
Sluis	10,140
Smallingerland	110,292
Soest	123,825
Someren	15,444
Son en Breugel	29,991
Spijkenisse	7,020
Staat der Nederlanden	27,845,360
Stadskanaal	27,339
Staphorst	30,030
Stede Broec	17,823
Steenbergen	11,583
Steenwijkerland	129,675
Stein	19,266
Stichtse Vecht	29,523
Strijen	6,240
Sudwest Fryslan	313,677
Ten Boer	3,510
Terneuzen	45,474
Terschelling	3,510
Texel	7,371
Teylingen	57,681
Tholen	33,696
Tiel	36,803
Tilburg	71,786
Tubbergen	30,000
Twenterand	23,868
Tynaarlo	43,243
Tytsjerksteradiel	48,945
Ubbergen	33,540

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Uden	17,550
Uitgeest	3,510
Uithoorn	54,522
Urk	3,861
Utrecht (municipality)	763,074
Utrecht (province)	87,750
Utrechtse Heuvelrug	201,669
Vaals	17,121
Valkenburg aan de Geul	21,060
Valkenswaard	12,987
Veendam	86,190
Veenendaal	86,970
Veere	7,020
Veghel	26,598
Veldhoven	35,100
Velsen	280,410
Venlo	106,026
Venray	54,202
Vianen	22,698
Vlaardingen	198,198
Vlagtwedde	16,458
Vlieland	3,510
Vlissingen	70,356
Vlist	10,530
Voerendaal	11,232
Voorschoten	41,184
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
Wijdemeren	33,930
Wijk bij Duurstede	23,751
Winsum	10,140
Winterswijk	17,199
Woensdrecht	11,232
Woerden	123,201
Wormerland	36,660

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Continuation of previous page	
Woudenberg	3,510
Woudrichem	10,530
Zaanstad	416,286
Zaltbommel	3,861
Zandvoort	56,862
Zederik	43,017
Zeevang	12,246
Zeewolde	78
Zeist	192,075
Zevenaar	8,020
Zoetermeer	3,510
Zoeterwoude	26,871
Zuid-Holland (province)	610,350
Zuidhorn	10,140
Zuidplas	54,328
Zundert	104,949
Zutphen	95,940
Zwartewaterland	23,712
Zwijndrecht	47,541
Zwolle	149,097

COLOPHON

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