Interim Report **2015**

BANK

PROFILE

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

BNG Bank's mission has been translated into the following strategic objectives: 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 endeavour. Corporate social responsibility and sustainability are intrinsic to BNG Bank's core activities.

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

BNG Bank's clients primarily comprise local authorities and public sector institutions in the area of housing, healthcare, education and public utilities. BNG Bank provides customised financial services, ranging from loans and advances, consultancy, payment services, electronic banking to asset management. The 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 local authorities and a district water board. BNG Bank is established in The Hague and has no branch offices.

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

This is an unofficial translation of the 'Halfjaarbericht 2015' (Dutch 2015 Interim Report) and is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.

Report of the Executive Board

Report of the Executive Board

In the first half of 2015, BNG Bank posted a net profit of EUR 155 million, up EUR 2 million on the same period in 2014. The result was positively influenced by ECB's decision to purchase bonds in the amount of EUR 60 billion each month, starting in March 2015, as part of the current Quantitative Easing programme. The effects of this decision on the market interest rates and exchange rates have led to positive unrealised market value changes, part of which has been recognised in the result on financial transactions. This development was somewhat mitigated by the great insecurity at the end of the reporting period about Greece's position in the euro zone and about the euro itself. Net profit was negatively affected by impairments totalling EUR 68 million. This amount mainly relates to a partial write-down of an exposure in Austria, guaranteed by the federal state of Carinthia.

The total amount of new long-term lending during the reporting period was EUR 5.1 billion. This is up EUR 0.4 billion on the same period in 2014, owing to a relatively high demand from local authorities in the second quarter of 2015. As expected, client demand related primarily to the refinancing of existing loans. Local authorities, housing associations and healthcare institutions remain reluctant to make new investments, partly on account of new government policy. BNG Bank's market share in the total demand for financing in these client sectors remained high. Relative to year-end 2014, the long-term loan portfolio declined by EUR 0.7 billion to EUR 82.3 billion. This decline was caused especially by the decrease in long-term exposures in the housing association sector. The lowering of the guarantee caps which the WSW imposes on individual housing associations led to a reduction of the guaranteed loan portfolios.

During the reporting period, BNG Bank raised a total of EUR 8.9 billion (2014: EUR 9.6 billion) in long-term funding, among other things by issuing five benchmark loans – in euros and American dollars – ranging in size from 1 billion to 2 billion. Since January 2015, bonds issued by BNG Bank qualify as highly liquid (Level 1) assets under the European liquidity requirements for banks. This makes BNG bonds attractive to banks, resulting in a further improvement in the prices which the bank paid for new long-term funding. The ECB's decision also to purchase BNG Bank bonds in the context of the

During the reporting period, BNG Bank raised a total of **EUR 8.9 billion** (2014: EUR 9.6 billion) in **long-term funding**.

Quantitative Easing programme has had a positive effect on prices as well. These developments enabled the bank to reduce its lending rates charged to clients. In addition, the bank's creditworthiness allows it to meet its short-term financing needs on very attractive conditions.

In May 2015, Fitch Ratings lowered BNG Bank's rating by one notch relative to the Dutch State's rating, to AA+ with a stable outlook. This was in response to the expected implementation in the Netherlands of the Bank Recovery and Resolution Directive (BRRD). Fitch doubts whether in the future the shareholders will still be allowed under this legislation to bail out BNG Bank in time in all cases, without the bond and deposit holders first being asked to pay. However, Fitch has stressed that, given the quality of BNG Bank's assets, the chance that the bank will be confronted with a sudden capital deficit and therefore with the effect of the BRRD is extremely small. Unlike Fitch, Moody's confirmed the bank's Aaa rating at the end of May and increased the outlook to stable. Finally, in June Standard & Poor's increased the outlook for the State's and BNG Bank's ratings to AA+ with a positive outlook, based on the successful recovery of the Dutch economy.

The interest result for the first half year was down by EUR 27 million on the same period in 2014, to EUR 208 million. The lower interest result is mainly attributable to the persistently low interest rates. This has a negative impact on the interest income from the bank's own funds, while it also puts pressure on the margin realised in the bank's short-term and long-term loan portfolios.

The result on financial transactions was EUR 82 million positive in the reporting period (first half of 2014: EUR 7 million negative). Of this amount, EUR 28 million relates to realised results from sales and buy-offs. The sharp rise in interest rates in the second quarter of 2015 caused a decline in the market value of derivatives and the Credit Valuation Adjustment included in it. This had a favourable effect on the result on financial transactions, in the amount of EUR 10 million. The unrealised market value changes of transactions involved in hedge accounting amounted to EUR 11 million positive in the first half of 2015. Although the volatility of the bank's result on hedge accounting has increased since the change in valuation method for derivatives, hedge accounting still is an extremely effective instrument.

The interest result for the first half year was down by EUR 27 million on the same period in 2014, to EUR 208 million.

The remaining part of the result on financial transactions, EUR 33 million positive, mainly relates to the change in cross currency basis swap spreads. The change in the level of this liquidity premium, which is determined by the relative availability of different currencies, greatly contributed to the increase in value of the derivatives which the bank concluded to hedge the currency, interest rate and inflation risks of a portfolio of structured interest-bearing securities.

In the first half of 2015, impairments totalling EUR 68 million were included in the result. Of this amount, EUR 7 million relates to a partial write-down of two participating interests of BNG Gebiedsontwikkeling. On the other hand, the incurred loss provision could be reduced by EUR 2 million during the reporting period, owing to a decrease in the total amount of specific allowances. More than EUR 63 million relates to the partial write-down of a bond with a face value of EUR 125 million of the former Austrian bank Hypo Alpe Adria (HAA), guaranteed by the federal state of Carinthia. In March 2015, the Austrian State indicated that it would not make any further capital available to HETA, the entity overseeing the liquidation of HAA. The Austrian Financial Market Authority (FMA) took over HETA and has determined that HETA is in resolution under the new Austrian Bank Recovery and Resolution Act. This Act provides that lenders should also contribute by paying part of the costs of resolving entities such as HETA. In addition, the FMA imposed a moratorium on the payment by HETA of its interest and repayment obligations effective until 31 May 2016. BNG Bank is of the opinion that the federal state of Carinthia, as a guarantor, is contractually liable for losses on the bonds held by the bank. The bank has joined a group of creditors in order to secure its interests and to prepare for potential (legal) actions. The impairment consists of the write-down of the principal amount based on the market price at the end of March 2015 (58%), the interest accrued (approximately EUR 1 million) and nearly EUR 10 million on account of the (compulsory) termination of the hedge relationship. The latter concerns the market value of the derivative concluded in order to hedge the interest rate risk of this bond loan. The market value of this swap will by definition run down to zero as maturity approaches (January 2017). The price of the bond was approximately 64% at the end of June.

At more than EUR 32 million, the regular operating expenses were at the same level during the reporting period as they were in the first half of 2014. Nevertheless, the costs of information technology and hiring external staff have increased. Major efforts are required in order to continue complying with the fast-changing laws and regulations and the extensive reporting requirements they entail.

Relative to year-end 2014, the balance sheet total increased by EUR 0.1 billion to EUR 153.6 billion. The Loans and advances item rose by EUR 0.4 billion to EUR 91.1 billion, primarily on account of an increase in short-term exposures. In anticipation of the repayment obligations in July, the Cash and balances with the central banks item is relatively high at EUR 5.3 billion. The increase in the long-term interest rate in the second quarter of 2015 had a mitigating effect on the size of the balance sheet total. The value of the swap transactions concluded in order to hedge currency and interest rate risks declined, as did the size of the associated collateral obligations. The effects of this primarily take the form of decreases in the items Amounts due from banks (reduction of collateral), Other financial assets and Other financial liabilities. The increase in the Debt securities item is primarily attributable to the increase in value of the US dollar relative to the euro.

Relative to year-end 2014, the **balance sheet total** increased by EUR 0.1 billion to **EUR 153.6 billion**.

In the period under review the bank's equity grew by more than EUR 0.1 billion to EUR 3.7 billion. This rise is due to the net profit for the current financial year and the improvement of the revaluation reserve. This reserve increased because of the substantial decline in the spreads for credit and liquidity risks of exposures recognised in the Financial assets available-for-sale item, partly on account of the ECB's purchase programme.

BNG Bank's already strong solvency position continued to improve during the reporting period. The bank's Tier 1 ratio rose to 25.2%, despite the fact that the profit of the current financial year may not yet be included in the calculation of the Tier 1 capital. This rise was caused primarily by the phased introduction of the revaluation reserve. In 2015, 40% of this reserve is taken into account in the calculation of the capital ratios. It is partly for this reason that the leverage ratio increased by 0.1% to 2.1%. From 2018, all of the revaluation reserve will be included in the calculation of both ratios. If the revaluation reserve and the profit for the reporting period, following deduction of the dividend, were included in full, the leverage ratio as at mid-2015 would be 2.4%. In migrating towards the presumed 3% norm, the bank aims to realise a leverage ratio of 2.75% – measured using the latter method – at the end of 2015.

The minimum obligatory level of the leverage ratio as at the end of 2017 has not yet been determined. It is generally assumed that the minimum level will be 3%, as proposed by the Basel Committee. The European Banking Authority (EBA) has been instructed to issue a proposal by 2016 for the level of the ratio, with due regard for the different business models of banks. Until further notice, BNG Bank will proceed from a minimum ratio of 3%. The bank believes that it can achieve this minimum level by means of the retained profit for the period up to and including 2017 and the issue of hybrid debt instruments.

During the General Meeting of Shareholders held on 23 April 2015, Ms S.M. Dekker and Mr W.M. van den Goorbergh retired from the Supervisory Board. Mr C.J. Beuving had been appointed in 2014 in anticipation of Mr van den Goorbergh's retirement. The vacancy to replace Ms Dekker will be filled in the second half of 2015.

The Supervisory Board has appointed Mr O.J. Labe to the Executive Board with effect from 1 May 2015. He succeeds Professor J.J.A. Leenaars, who stepped down in connection with his retirement. Mr Labe has been employed by BNG Bank since 2007. Since 2010 he was the Managing Director of Treasury & Capital Markets.

BNG Bank expects the total amount of new long-term lending to be slightly higher in 2015 than in the previous year. However, the consequences of the financial crisis coupled with far-reaching spending cuts or increases in the financial burden offer the bank's core customers little room for new investments.

Despite the high creditworthiness of the bank's exposures, it cannot be ruled out that a few debtors will no longer be able to meet their payment obligations. As a result, an addition to the incurred loss provision or an additional impairment may be required in the second half of 2015.

BNG Bank's expected long-term funding requirement in 2015 is approximately EUR 15 billion. Efforts will again focus on obtaining the optimum funding mix, with diversification into currency and maturity. A second Socially Responsible Investment bond is expected to be issued in the second half of the year.

The **consequences** of the **financial crisis** coupled with far-reaching **spending cuts** or **increases in the financial burden** offer the bank's core customers **little room** for **new investments**.

Furthermore, an issue of additional Tier 1 capital is expected to take place in the second half of 2015 in order to achieve a higher leverage ratio.

The statutory bank levy will also apply in 2015. BNG Bank's contribution, which is determined on the basis of the balance sheet at year-end 2014, amounts to EUR 36 million and will be charged to the income statement in October 2015. From 2015, BNG Bank is also required to contribute to building up the European Resolution Fund over a ten-year period. The final apportionment key for the contribution from banks is not yet known. BNG Bank has taken account of a minimum contribution of EUR 10 million in 2015.

In the coming years, the bank's operating expenses will rise as a result of the large number of new regulations that need to be implemented in its systems and processes. Regular consolidated operating expenses are expected to amount to more than EUR 66 million in 2015. This amount does not include the costs of ECB supervision, which will be payable for the first time in 2015. It is not clear yet how these costs will be passed on to the institutions that are subject to supervision.

The interest result for 2015 is expected to be lower than for 2014. The persistently low long-term interest rates cause a downward trend in interest income on the bank's own funds. In addition, the negative market interest rate for short-term drawdowns and exposures negatively affects the development of the margin on the bank's short-term portfolio. The result on financial transactions will remain sensitive in the near future to political, economic and monetary developments. In view of the persisting uncertainties, the bank does not consider it wise to make a statement regarding the expected net profit for 2015.

DECLARATION OF RESPONSIBILITY

In the opinion of the Executive Board, the Interim Report provides a true and fair view of the assets, liabilities, the financial position and the results of BNG Bank and the subsidiaries included in the consolidation. The Interim Report provides a true and fair view of the position on the balance sheet date, performance during the first half year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated Interim Report. The Interim Report also describes the material risks facing BNG Bank. The Interim Report does not contain all the information required for a full annual report and should therefore be read in conjunction with the 2014 Annual Report. ■

The Hague, 28 August 2015

Executive Board

C. VAN EYKELENBURG
CHAIRMAN

O. J. LABE

J.C. REICHARDT

Consolidated interim financial **statements**

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/06/2015	31/12/2014
ASSETS		
Cash and balances with the central banks	5,295	2,241
Amounts due from banks	9,675	11,046
Financial assets at fair value through the income statement	3,980	4,247
Other financial assets	29,785	31,322
Financial assets available-for-sale	13,512	13,693
Loans and advances	91,129	90,732
Investments in associates and joint ventures	48	54
Property and equipment	16	16
Other assets	167	154
TOTAL ASSETS	**153,607**	**153,505**
LIABILITIES		
Amounts due to banks	4,358	2,544
Financial liabilities at fair value through the income statement	3,456	3,327
Other financial liabilities	21,669	25,357
Debt securities	112,609	110,868
Funds entrusted	7,359	7,535
Subordinated debts	32	32
Other liabilities	409	260
Total liabilities	149,892	149,923
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	308	234
Cash flow hedge reserve	310	375
Other reserves	2,797	2,702
Net profit	155	126
Equity	3,715	3,582
TOTAL LIABILITIES AND EQUITY	**153,607**	**153,505**

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2015		FIRST HALF OF 2014	
– Interest income	536		711	
– Interest expenses	328		476	
Interest result		208		235
Results from associates and joint ventures		1		1
– Commission income	16		18	
– Commission expenses	2		4	
Commission result		14		14
Result on financial transactions		82		–7
Other results		1		1
TOTAL INCOME		**306**		**244**
Staff costs		19		18
Other administrative expenses		12		13
Depreciation		1		1
TOTAL OPERATING EXPENSES		**32**		**32**
Impairments		68		8
PROFIT BEFORE TAX		**206**		**204**
Taxes		–51		–51
NET PROFIT		**155**		**153**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	First half of 2015		First half of 2014	
NET PROFIT		**155**		**153**
RECYCLABLE RESULTS RECOGNISED DIRECTLY IN EQUITY				
Changes in cash flow hedge reserve		−65		34
Changes in the revaluation reserve for financial assets available-for-sale:				
– Unrealised value changes	21		65	
– Realised value changes transferred to the income statement	−10		−2	
– Impairments transferred to the income statement	63		–	
		74		63
		9		**97**
NON-RECYCLABLE RESULTS RECOGNISED DIRECTLY IN EQUITY				
Changes in actuarial results		0		0
RESULTS RECOGNISED DIRECTLY IN EQUITY		**9**		**97**
TOTAL		**164**		**250**

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

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	FIRST HALF OF 2015		FIRST HALF OF 2014	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	206		204	
Adjustments for:				
– Depreciation	1		1	
– Impairments	68		8	
– Unrealised results through the income statement	−50		10	
Cash flow generated from operations		225		223
Changes in amounts due from and due to banks (not due on demand)	3,038		1,811	
Changes in loans and advances	−452		−1,986	
Changes in funds entrusted	−376		−1,068	
Changes in derivatives	2,888		−29	
Corporate income tax received/paid	5		−69	
Other changes from operating activities	39		108	
		5,142		−1,233
TOTAL CASH FLOW FROM OPERATING ACTIVITIES [1]		**5,367**		**−1,010**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	−95		−2,200	
– Investments in associates and joint ventures	−2		−2	
– Property and equipment	−1		0	
		−98		−2,202
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	154		1,104	
		154		1,104
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**56**		**−1,098**

Continued on next page

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

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	FIRST HALF OF 2015		FIRST HALF OF 2014	
CASH FLOWS FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Debt securities	37,964		28,263	
– Financial liabilities at fair value through the income statement	3		2	
		37,967		28,265
Amounts paid on account of:				
– Debt securities	−40,166		−26,110	
– Financial liabilities at fair value through the income statement	−136		−69	
– Subordinated debts	0		−1	
– Dividend	−32		−71	
		−40,334		−26,251
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**−2,367**		**2,014**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**3,056**		**−94**
Cash and cash equivalents as at 1 January		2,240		1,469
CASH AND CASH EQUIVALENTS AS AT 30 JUNE		**5,296**		**1,375**
Cash and cash equivalents as at 30 June comprise:				
– Cash and balances with the central banks		5,295		1,375
– Cash equivalents in the ‘Amounts due from banks’ item		3		2
– Cash equivalents in the ‘Amounts due to banks’ item		−2		−2
		5,296		**1,375**

1 Interest received amounted to EUR 2,702 million (first half of 2014: EUR 2,853 million) and interest paid amounted to EUR 2,473 million (first half of 2014: EUR 2,566 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

FIRST HALF OF 2015

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPRO-PRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	234	375	2,702	126	3,582
Net profit	–	–	–	–	–	155	155
Unrealised results	–	–	74	−65	–	–	9
Dividend payment	–	–	–	–	−31	–	−31
Appropriation from the previous year’s profit	–	–	–	–	126	−126	–
CLOSING BALANCE	**139**	**6**	**308**	**310**	**2,797**	**155**	**3,715**

FIRST HALF OF 2014

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPRO-PRIATED PROFIT	TOTAL
OPENING BALANCE	139	6	180	332	2,490	283	3,430
Net profit	–	–	–	–	–	153	153
Unrealised results	–	–	63	34	–	–	97
Dividend payment	–	–	–	–	−71	–	−71
Appropriation from the previous year’s profit	–	–	–	–	283	−283	0
CLOSING BALANCE	**139**	**6**	**243**	**366**	**2,702**	**153**	**3,609**

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Selected **notes**

Selected notes to the consolidated 2015 interim report

GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared by and issued for publication by the Executive Board on 28 August 2015. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by local 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, DETERMINATION OF THE RESULT AND CONSOLIDATION

The consolidated 2015 Interim Report was prepared on the basis of the going-concern principle. This Interim Report comprises the interim figures of the parent company and all the subsidiaries over which BNG Bank has control. The Interim Reports of the parent company and its subsidiaries which are used to prepare the consolidated Interim Report are drawn up on the same reporting date, and are based on uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated Interim Report. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. BNG Bank's consolidated interim figures were prepared in accordance with the accounting principles and computation methods applied to the 2014 financial statements, except for new or amended IFRS standards and interpretations, as adopted by the European Union and taking effect from 2015. These figures are presented in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2014 Annual Report. In preparing the 2015 consolidated Interim Report the same system was applied to significant estimates and methods as that for the consolidated 2014 Annual Report. All amounts stated in this Interim Report are presented in millions of euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank. Income is recognised 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.

PRESENTATION OF COMPARATIVE FIGURES

The comparative figures in the 2015 consolidated Interim Report do not diverge from the figures reported in the 2014 consolidated Annual Report, with the exception of a presentation change. In the Interim Report, EUR 4.6 billion in privately issued bonds was transferred from the 'Funds entrusted' item to the 'Debt securities' item. This voluntary change in presentation, which has no impact on the bank's equity and results, was prompted by a reconsideration of the characteristics of privately issued bonds, such as marketability and the manner in which cash flows are offset. The comparative figures for the balance sheet items 'Debt securities' and 'Funds entrusted' have been adjusted accordingly.

APPLICABLE LAWS AND REGULATIONS

BNG Bank has applied the new IFRS standards, amendments and interpretations adopted by the European Union with effect from 1 January 2015 set out below. The retrospective application of the following standards, amendments, improvements and interpretations has had no impact on the valuations, determination of the result and disclosures in the bank's 2015 Interim Report:

- Improvements to IFRSs 2010-2012 cycle;
- Improvements to IFRSs 2011-2013 cycle;
- Amendments op IAS 19 Defined Benefit Plans.

BNG Bank generally does not early adopt new or adjusted standards and interpretations – adopted by the European Union – which are only mandatory for future financial years. A list of the standards whose application will be mandatory on or after 1 January 2016 is stated below. The bank was unable to apply these standards in this Interim Report because they have not yet been adopted by the EU. If the new or amended standard has no impact at all on the bank's equity, result and disclosures, no further explanation is provided and only the effective date is given.

- Amendments to IAS 1 'Disclosure Initiative': These amendments were published with the aim to provide insight in how companies can apply concepts such as 'professional judgement' and 'materiality' in determining which information is disclosed and how this will be incorporated into the financial statements. These amendments will take effect on 1 January 2016. Their impact on the disclosures on BNG Bank's financial statements is expected to be limited.
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation': These amendments will take effect on 1 January 2016 and have no impact on BNG Bank.
- Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants': These amendments will take effect on 1 January 2016 and have no impact on BNG Bank.
- Amendments to IAS 27 'Equity Method in separate financial statements': These amendments provide for the option to recognise participating interests in the separate financial statements either at cost or in accordance with the equity method, as set out in IAS 28. BNG Bank currently applies the cost method based on IAS 27. This leads to a difference in equity compared with the consolidated financial statements. These amendments will take effect on 1 January 2016. BNG Bank is currently examining the options provided. Application of the equity method in the valuation of participating interests will have an impact on the equity and balance sheet total in the bank's separate financial statements.
- Improvements to IFRSs 2012-2014 cycle: These improvements relate to standards IFRS 7, IAS 19 and IAS 34, and will take effect on 1 January 2016. Their impact on the equity and disclosures in BNG Bank's financial statements and Interim Report is expected to be very limited.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities 'Applying the Consolidation Exception': These amendments will take effect on 1 January 2016 and have no impact on BNG Bank.
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of assets between an investor and its associate or joint venture': These amendments provide how a share in an associate or joint venture must be recognised (in this case at fair value) in the event that a subsidiary is deconsolidated. Their effectuation, scheduled for 1 January 2016,

has been postponed. These amendments will apply to BNG Bank from the effective date if the bank decides to sell a part of its shares in the subsidiaries.

- Amendments to IFRS 11 'Accounting for acquisitions of interests in joint operations': These amendments will take effect on 1 January 2016 and have no impact on BNG Bank.
- IFRS 9 and Amendments to IFRS 7: IFRS 9 will replace standard IAS 39 'Financial Instruments' almost in its entirety, with the exception of the section on macro hedge accounting. The standard will be effective from 1 January 2018. As a result of the amendments, a number of textual changes have been made to the disclosure requirements (IFRS 7). The bank is examining the implications of the new standard and does not rule out the possibility that its application will have a significant impact on the equity, result, balance sheet total and disclosures.
- IFRS 14 'Regulatory Deferral Accounts': These amendments will take effect on 1 January 2016 and have no impact on BNG Bank.
- IFRS 15 'Revenue Recognition': IFRS 15 replaces a number of standards and interpretations concerning revenue recognition and applies to contracts with clients which are not within the scope of IAS 17, IAS 39/IFRS 9, IFRS 4, IFRS 10, IFRS 11, IAS 27 and IAS 28. The standard will be effective from 1 January 2017. BNG Bank is currently examining which types of commission received comply with this new standard. The impact on BNG Bank's result, equity and disclosures is expected to be very limited.

SEGMENTED INFORMATION

IFRS 8 'Operating segments' stipulates that segmentation is dependent on the way in which the organisation is managed. The Executive Board does not distinguish between segments when deciding on the deployment of resources and performance measurement. This Interim Report does not contain any segmented information.

DIVIDEND

The proposed dividend of EUR 32 million for the 2014 financial year was paid out to the shareholders in the first half of 2015 following the General Meeting of Shareholders. BNG Bank has no plans to pay out an interim dividend on the result for the first half of 2015.

DEBT SECURITIES

As part of its long-term funding activities, BNG Bank issued EUR 8.9 billion of long-term debt securities in the first half of 2015 (first half of 2014: EUR 9.6 billion). The total redemption value of long-term debt securities amounted to EUR 9.4 billion in the reporting period (first half of 2014: EUR 7.7 billion). The increase in the 'Debt securities' item is caused primarily by the increase in value of the American dollar relative to the euro.

RESULT ON FINANCIAL TRANSACTIONS

This item relates to realised and unrealised results from value changes of financial instruments measured at fair value, with changes in fair value recognised through the income statement. These are offset nearly entirely by changes 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 counterparty credit risk (Credit Valuation Adjustment, CVA) and adjustments for own credit risk (Debit Valuation Adjustment, DVA). CVA and DVA are only relevant in the event of derivative transactions with counterparties without a daily or with a limited exchange of collateral.

	FIRST HALF OF 2015		FIRST HALF OF 2014	
MARKET VALUE CHANGES OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS. THESE CHANGES RELATE TO:				
– Interest-bearing securities	−14		−19	
– Structured loans	15		7	
		1		**−12**
RESULT FROM HEDGE ACCOUNTING				
– Financial assets involved in a fair value hedge accounting relationship	−3,194		4,466	
– Financial liabilities involved in a micro fair value hedge accounting relationship	−2,941		−2,106	
– Derivatives involved in a hedge accounting relationship	6,146		−2,337	
		11		**23**
CHANGES IN COUNTERPARTY CREDIT RISK ON DERIVATIVES (CVA/DVA)		10		−6
RESULTS FROM SALES AND BUY-OFFS OF FINANCIAL ASSETS AVAILABLE-FOR-SALE		28		2
OTHER MARKET VALUE CHANGES		32		−14
TOTAL		**82**		**−7**

The result on financial transactions was EUR 82 million positive in the first half of 2015 (first half of 2014: EUR 7 million negative). During the reporting period, the result on financial transactions was positively affected by factors such as:

- realised results from the sale of interest-bearing securities; and
- unrealised market value changes on account of the reduced counterparty risk on derivatives; and
- unrealised market value changes of derivatives not involved in a hedge accounting relationship, primarily as a result of the prolongation of the GBP/EUR cross-currency basis spread; and
- unrealised market value changes of transactions involved in a hedge accounting relationship.

IMPAIRMENTS

	FIRST HALF OF 2015	FIRST HALF OF 2014
THE IMPAIRMENTS CONSIST OF:		
– Addition to the incurred loss provision for loans and advances	2	6
– Release from the incurred loss provision for loans and advances	–4	–
– Impairment of financial assets available-for-sale	63	–
– Impairment of associates and joint ventures	7	2
TOTAL	**68**	**8**

Impairments in the first half of 2015 totalled EUR 68 million (first half of 2014: EUR 8 million). More than EUR 63 million relates to the partial write-down of a bond with a face value of EUR 125 million of the former Austrian bank Hypo Alpe Adria (HAA), guaranteed by the federal state of Carinthia. In addition, the bank recorded a EUR 7 million write-down on two participating interests of BNG Gebiedsontwikkeling and a net release of EUR 2 million from the bad debt provision.

In March 2015, the Austrian State indicated that it would not make any further capital available to HETA, the entity overseeing the liquidation of HAA. Subsequently, the Austrian Financial Market Authority (FMA) imposed a moratorium on the payment by HETA of its interest and repayment obligations effective until 31 May 2016. The impairment consists of the write-down of the principal amount based on the market price at the end of March 2015 (58%), the interest accrued (approximately EUR 1 million) and nearly EUR 10 million on account of the (compulsory) termination of the hedge relationship. The latter concerns the market value of the derivative concluded in order to hedge the interest rate risk of this bond loan.

BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY (BALANCE SHEET VALUES)

FINANCIAL ASSETS BY CATEGORY

						30/06/2015
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	TOTAL
– Cash and balances with the central banks	–	–	–	–	5,295	5,295
– Amounts due from banks	–	–	–	304	9,371	9,675
– Financial assets at fair value through the income statement	2,768	1,212	–	–	–	3,980
– Other financial assets	–	–	16,585	13,200	–	29,785
– Financial assets available-for-sale	–	–	–	11,820	1,692	13,512
– Loans and advances	–	–	–	72,441	18,688	91,129
	2,768	**1,212**	**16,585**	**97,765**	**35,046**	**153,376**

FINANCIAL ASSETS BY CATEGORY

	31/12/2014					
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	TOTAL
– Cash and balances with the central banks	–	–	–	–	2,241	2,241
– Amounts due from banks	–	–	–	12	11,034	11,046
– Financial assets at fair value through the income statement	2,725	1,522	–	–	–	4,247
– Other financial assets	–	–	15,278	16,044	–	31,322
– Financial assets available-for-sale	–	–	–	10,423	3,270	13,693
– Loans and advances	–	–	–	73,155	17,577	90,732
	2,725	**1,522**	**15,278**	**99,634**	**34,122**	**153,281**

FINANCIAL LIABILITIES BY CATEGORY

						30/06/2015
	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL LIABILITIES NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	TOTAL
– Amounts due to banks	–	–	–	–	4,358	4,358
– Financial liabilities at fair value through the income statement	2,058	1,398	–	–	–	3,456
– Other financial liabilities	–	–	21,669	–	–	21,669
– Debt securities	–	–	–	90,433	22,176	112,609
– Funds entrusted	–	–	–	2,156	5,203	7,359
– Subordinated debts	–	–	–	–	32	32
	2,058	**1,398**	**21,669**	**92,589**	**31,769**	**149,483**

FINANCIAL LIABILITIES BY CATEGORY

	31/12/2014					
	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL LIABILITIES NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	TOTAL
– Amounts due to banks	–	–	–	–	2,544	2,544
– Financial liabilities at fair value through the income statement	2,077	1,250	–	–	–	3,327
– Other financial liabilities	–	–	25,357	–	–	25,357
– Debt securities	–	–	–	89,141	21,727	110,868
– Funds entrusted	–	–	–	2,001	5,534	7,535
– Subordinated debts	–	–	–	–	32	32
	2,077	**1,250**	**25,357**	**91,142**	**29,837**	**149,663**

CREDIT RISK

Credit risk is defined as the chance of losses in the event that a counterparty is unable to meet its (financial) obligations. Please find below our disclosures on foreign exposures, forborne and non-performing exposures, the provisions policy and the effect of balance sheet netting.

LONG-TERM FOREIGN EXPOSURES

By mid-2015, the bank's foreign exposure (expressed in balance sheet value) totalled EUR 37.1 billion, of which EUR 13.6 billion consisted of long-term exposure (year-end 2014: EUR 37.4 billion and EUR 13.8 billion respectively). This represents 8.9% of the balance sheet total (year-end 2014: 9.0%).

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

						30/06/2015
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
Supranational institutions (EU)	250	680	–	–	–	930
Multilateral development banks	760	–	–	–	–	760
Austria	817	18	–	–	73	908
Belgium	38	622	148	125	–	933
Germany	1,423	40	–	–	–	1,463
Spain	–	284	672	886	233	2,075
Finland	770	–	–	–	–	770
France	145	1,052	47	50	77	1,371
United Kingdom	518	10	337	221	70	1,156
Italy	–	76	29	226	83	414
Portugal	–	–	25	143	233	401
TOTAL	**4,721**	**2,782**	**1,258**	**1,651**	**769**	**11,181**

	31/12/2014					
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
Supranational institutions (EU)	270	830	–	–	–	1,100
Multilateral development banks	753	–	–	–	–	753
Austria	804	18	–	–	125	947
Belgium	40	598	133	126	–	897
Germany	1,423	40	–	–	–	1,463
Spain	–	83	858	894	356	2,191
Finland	770	–	–	–	–	770
France	–	1,046	43	50	78	1,217
United Kingdom	478	–	323	196	81	1,078
Italy	–	14	100	229	86	429
Portugal	–	–	51	87	272	410
TOTAL	**4,538**	**2,629**	**1,508**	**1,582**	**998**	**11,255**

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including covered bonds and RMBS transactions. The non-investment grade exposure in Austria concerns the exposure with the entity HETA with a guarantee from the federal state of Carinthia and a maturity date in early 2017. The face value of this investment fell by EUR 52 million in the first half of 2015, owing to the impairment of this bond. The non-investment grade exposure in France and the United Kingdom relates to a limited number of private project financing loans in the areas of infrastructure, education, energy and healthcare.

The decline in non-investment grade exposures is primarily attributable to regular repayments and the improved ratings of a number of items. The total fair value of foreign non-investment grade exposures at the end of June 2015 amounts to EUR 691 million (year-end 2014: EUR 890 million). This decrease in fair value is proportional to the decrease in face value.

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. BNG Bank's total IBS portfolio can be subdivided into a liquidity portfolio and an ALM (Asset & Liability Management) portfolio. The liquidity portfolio consists exclusively of highly negotiable securities and is subdivided into various levels, as shown in the table below. The ALM portfolio is subdivided according to type of security. The amounts shown are remaining principal amounts in millions of euros.

	30/06/2015					
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
LIQUIDITY PORTFOLIO						
Level I - Government / Supranational	5,944	2,295	0	251	46	8,536
Level I B - Covered bonds	626	35	–	–	–	661
Level II A - Government / Supranational	–	71	–	15	–	86
Level II A - Covered bonds	–	30	177	–	–	207
Level II B - Corporates	–	–	65	–	–	65
Level II B - RMBS	1,326	36	–	–	–	1,362
	7,896	**2,467**	**242**	**266**	**46**	**10,917**
ALM PORTFOLIO						
RMBS/CMBS	60	202	157	362	167	948
RMBS with NHG guarantee	234	131	331	–	–	696
Covered bonds	–	80	222	535	–	837
ABS	117	12	218	–	63	410
Other	493	119	461	167	218	1,458
	904	**544**	**1,389**	**1,064**	**448**	**4,349**
TOTAL	**8,800**	**3,011**	**1,631**	**1,330**	**494**	**15,266**

						31/12/2014
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
LIQUIDITY PORTFOLIO						
Level I - Government / Supranational	5,745	2,415	1	251	46	8,458
Level II A - Government / Supranational	–	64	–	17	–	81
Level II A - Covered bonds	499	75	–	–	–	574
Level II B - Corporates	–	–	196	–	–	196
Level II B - RMBS	88	14	38	–	–	140
	6,332	**2,568**	**235**	**268**	**46**	**9,449**
ALM PORTFOLIO						
RMBS/CMBS	136	97	488	120	231	1,072
RMBS with NHG guarantee	853	625	354	–	–	1,832
Covered bonds	–	–	474	565	95	1,134
ABS	121	18	65	161	64	429
Other	355	19	302	167	274	1,117
	1,465	**759**	**1,683**	**1,013**	**664**	**5,584**
TOTAL	**7,797**	**3,327**	**1,918**	**1,281**	**710**	**15,033**

FORBORN EXPOSURES

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

	30/06/2015		
	LOANS AND ADVANCES INCLUDING OFF-BALANCE, GROSS OF INCURRED LOSS PROVISION	DISTRIBUTION IN %	LOANS AND ADVANCES SUBJECT TO FORBEARANCE
SOLVENCY-FREE LOANS	**88,716**	**87%**	**20**
LOANS SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
1 through 11	12,144	12%	–
12 through 13	974	1%	86
14 tthrough 17	166	0%	9
18 through 19	103	0%	–
	13,387	**13%**	**95**
TOTAL	**102,103**	**100%**	**115**

	31/12/2014		
	LOANS AND ADVANCES INCLUDING OFF-BALANCE, GROSS OF INCURRED LOSS PROVISION	DISTRIBUTION IN %	LOANS AND ADVANCES SUBJECT TO FORBEARANCE
SOLVENCY-FREE LOANS	**87,862**	**87%**	**20**
LOANS SUBJECT TO SOLVENCY REQUIREMENTS			
INTERNAL RATING:			
1 through 11	11,687	12%	–
12 through 13	1,056	1%	15
14 through 17	248	0%	87
18 through 19	83	0%	9
	13,074	**13%**	**111**
TOTAL	**100,936**	**100%**	**131**

The credit agreements whose contractual terms were amended as a result of the debtor's precarious financial position amounted to EUR 115 million by mid-2015 (year-end 2014: EUR 131 million). The share in the total loan portfolio is 0.1% (year-end 2014: 0.1%) and concerns 5 debtors (year-end 2014: 6 debtors).

NON-PERFORMING EXPOSURES

Non-performing exposures are exposures:

- whose contractual conditions have been breached by the debtor (e.g. payment arrears exceeding 90 days); and/or
- in respect of which the debtor is not expected to be able to continue fulfilling its future payment obligations (in full) ('unlikely to pay'); and/or
- for which a specific allowance has been made.

In the first half of 2015, a specific allowance was made for one non-performing debtor. The specific allowance for another debtor was released, following the repayment of its total exposure.

The development of loans to these debtors is shown in the following table.

	FIRST HALF OF 2015	2014
Opening balance	115	81
Non-performing exposures for which a specific allowance is not required	2	19
Non-performing exposures for which a specific allowance has been made	2	58
Repayments on or settlement of non-performing exposures	−11	−7
Shift from non-performing to performing exposures	–	−36
CLOSING BALANCE	**108**	**115**

MATURITY ANALYSIS OF PAST DUE FINANCIAL ASSETS WITHOUT INDIVIDUAL IMPAIRMENT

	30/06/2015	31/12/2014
Less than 31 days	1	1
31 through 60 days	0	0
61 through 90 days	1	0
Over 90 days	3	2
TOTAL	**5**	**3**

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

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	Gross value of financial assets or liabilities before netting	Gross value of financial assets or liabilities to be netted	Balance sheet value of financial assets or liabilities (after netting)	Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	Exposure before collateral	Value of financial collateral that does not comply with IAS 32 for netting purposes	Net exposure
							30/06/2015
Derivatives stated as assets	17,797	–	17,797	14,378	3,419	2,397	1,022
Derivatives stated as liabilities	23,067	–	23,067	14,378	8,689	7,907	782
NET DERIVATIVES	**–5,270**	**–**	**–5,270**	**–**	**–5,270**	**–5,510**	**240**
							31/12/2014
Derivatives stated as assets	16,800	–	16,800	14,324	2,476	897	1,579
Derivatives stated as liabilities	26,607	–	26,607	14,324	12,283	12,247	36
NET DERIVATIVES	**–9,807**	**–**	**–9,807**	**–**	**–9,807**	**–11,350**	**1,543**

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.

BALANCE SHEET VALUES VERSUS FAIR VALUES	30/06/2015		31/12/2014	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances with the central banks	5,295	5,295	2,241	2,241
Amounts due from banks and Loans and advances	100,804	116,304	101,778	118,900
Financial assets at fair value through the income statement	3,980	3,980	4,247	4,247
Financial assets available-for-sale	13,512	13,512	13,693	13,693
Other financial assets *	29,785	16,585	31,322	15,278
TOTAL FINANCIAL ASSETS	**153,376**	**155,676**	**153,281**	**154,359**
Amounts due to banks and Funds entrusted	11,717	12,046	10,079	10,437
Subordinated debts	32	48	32	50
Debt securities	112,609	113,775	110,868	111,948
Financial liabilities at fair value through the income statement	3,456	3,456	3,327	3,327
Other financial liabilities	21,669	21,669	25,357	25,357
TOTAL FINANCIAL LIABILITIES	**149,483**	**150,994**	**149,663**	**151,119**

* Fair value excludes the value of hedged risk in relation to hedge accounting of EUR 13,200 million (year-end 2014: EUR 16,044 million).

FAIR VALUE HIERARCHY

- **LEVEL 1:** In this category, financial instruments are valued on the basis of (unadjusted) quoted market prices of the instrument itself or, if unavailable, of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices reflect current and regularly occurring arm's length market transactions. The quoted market prices for financial assets and liabilities are based on mid-market prices.
- **LEVEL 2:** In this category, financial instruments are valued using directly or indirectly observable market data other than quoted market prices as used at Level 1. Directly or indirectly observable market data include data such as quoted prices in active markets for comparable instruments and quoted prices for identical or comparable instruments in non-active markets.
- **LEVEL 3:** In this category, financial instruments are valued using input variables that are not based on observable market data and whereby the non-observable market data significantly influences the valuation of the instrument. This category also includes the instruments valued in accordance with the quoted prices for comparable instruments whereby significant not publicly observable changes or presumptions are necessary for expressing the differences between the instruments.

When concluding a transaction, the hierarchical classification is determined on the basis of the relevant characteristics of the valuation. The nature of the input factors and their significance for the total valuation are decisive in this determination. The classification in one of the three levels is to take place on the basis of the lowest input level that is significant for the fair value in the transaction as a whole. Significance is assessed by determining the influence of non-observable input factors on the outcome of the total valuation, with due regard for the range of possible alternative assumptions concerning those non-observable input factors. Each quarter, the hierarchical classification is reviewed on a per-transaction basis and adjusted where necessary.

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

				30/06/2015
STATEMENT OF FAIR VALUE LEVELS	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets at fair value through the income statement	340	2,770	870	3,980
Other financial assets *	–	16,585	–	16,585
Financial assets available-for-sale	11,015	2,367	130	13,512
TOTAL FINANCIAL ASSETS	**11,355**	**21,722**	**1,000**	**34,077**
Financial liabilities at fair value through the income statement	–	3,389	67	3,456
Other financial liabilities	–	21,669	–	21,669
TOTAL FINANCIAL LIABILITIES	**–**	**25,058**	**67**	**25,125**

				31/12/2014
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets at fair value through the income statement	339	3,024	884	4,247
Other financial assets *	–	15,278	–	15,278
Financial assets available-for-sale	11,288	2,339	66	13,693
TOTAL FINANCIAL ASSETS	**11,627**	**20,641**	**950**	**33,218**
Financial liabilities at fair value through the income statement	–	3,276	51	3,327
Other financial liabilities	–	25,357	–	25,357
TOTAL FINANCIAL LIABILITIES	**–**	**28,633**	**51**	**28,684**

* Excluding value of hedged risk in relation to hedge accounting of EUR 13,200 million (year-end 2014: EUR 16,044 million).

ASSETS AND LIABILITIES TRANSFERRED BETWEEN LEVELS 1 AND 2

During the first half of 2015, no assets or liabilities were transferred from Level 1 to Level 2 or vice versa.

STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES	FIRST HALF OF 2015					
	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		**884**		**66**		**51**
Results through the income statement:						
– Interest result	7		0		1	
– Unrealised result on financial transactions	3		0		–7	
– Realised result on financial transactions	0		0		0	
		10		0		–6
Unrealised value adjustments via the revaluation reserve		–		0		–
Investments		–		–		–
Cash flows		–24		0		0
Transferred to Level 2		–		–		–
Transferred from Level 2		–		64		22
Derivatives reclassified from assets to liabilities and vice versa		–		–		–
CLOSING BALANCE		**870**		**130**		**67**

STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES			2014
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	FINANCIAL ASSETS AVAILABLE-FOR-SALE	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT
OPENING BALANCE	**1,055**	**221**	**252**
Results through the income statement:			
– Interest result	13	6	6
– Unrealised result on financial transactions	–1	–	120
– Realised result on financial transactions	0	0	0
	12	6	126
Unrealised value adjustments via the revaluation reserve	–	8	–
Investments	–	–	0
Cash flows	–41	–15	3
Transferred to Level 2	–182	–154	–381
Transferred from Level 2	40	–	51
Derivatives transferred from assets to liabilities and vice versa	–	–	–
CLOSING BALANCE	**884**	**66**	**51**

The Level 3 items are primarily structured 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 these transactions is determined on the basis of observable market data and adjusted using significant input variables not publicly observable in the market.

The increase in ‘Financial liabilities at fair value through the income statement’ in Level 3 relates to a transfer of structured bonds from Level 2. The increase in ‘Financial assets available-for-sale’ in Level 3 relates to the transfer of two corporate bonds from Level 2. Because of their limited marketability, the level classification of the aforementioned interest-bearing securities was reassessed. It was concluded that input variables not publicly observable in the market had increased in significance in determining the fair value, which necessitated inclusion under Level 3.

INPUT VARIABLES NOT PUBLICLY OBSERVABLE IN THE MARKET

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

For the purpose of determining the spreads of interest-bearing securities and loans with an inflationary component, the following input variables not publicly observable in the market are used:

- recovery rates for the relevant debtors (40%) and the relevant monoline insurers (30%);
- a correlation factor between the debtor and the monoline insurer (20% or 90%, depending on the insurer’s financial position).

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

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Due to the absence of public market data, specific liquidity spreads were applied in determining the individual spread curves of four ABS transactions and two corporate bonds. In determining the market value of an infrastructure participation fund the price was established on the basis of the fund's net asset value (126%).

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

The sensitivity analysis was adapted with effect from 2014. As a result, the sensitivity of assets to inflation, liquidity and credit spread and interest rate movements is presented in both separate and correlated figures. The first three factors indicate the sensitivity of Level 3 assets and liabilities in the event of a separate movement in these significant input factors. Despite the fact that there are no direct dependencies between these input factors, the sensitivity of instruments in the event of a simultaneous shift in these factors is presented as well.

		IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN THE RELEVANT INPUT FACTOR:							
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		FINANCIAL ASSETS AVAILABLE-FOR-SALE		FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT		TOTAL (NET)	
		30/06/ 2015	**31/12/ 2014**	**30/06/ 2015**	**31/12/ 2014**	**30/06/ 2015**	**31/12/ 2014**	**30/06/ 2015**	**31/12/ 2014**
Balance sheet value		870	884	130	66	67	51	**933**	**899**
Interest rate	+10 BP	−14	−8	0	0	0	0	**−14**	**−8**
	−10 BP	15	8	0	0	0	0	**14**	**8**
	+100 BP	−116	−71	−1	0	2	3	**−114**	**−68**
	−100 BP	184	102	1	0	−7	−10	**178**	**92**
Inflation	+10 BP	14	7	–	–	–	–	**14**	**7**
	−10 BP	−26	−7	–	–	–	–	**−26**	**−7**
	+100 BP	145	84	–	–	–	–	**145**	**84**
	−100 BP	−118	−62	–	–	–	–	**−118**	**−62**
Credit and liquidity spread	+10 BP	−4	-8	0	0	0	0	**−4**	**−8**
	−10 BP	−2	8	0	0	0	0	**−2**	**8**
	+100 BP	−33	−67	−4	0	3	0	**−34**	**−67**
	−100 BP	77	90	4	0	−8	0	**73**	**90**
Total significant input factors	+10 BP	4	−6	0	0	1	0	**4**	**−6**
	−10 BP	−15	7	0	0	−1	0	**−15**	**7**
	+100 BP	33	−58	−4	0	5	2	**33**	**−56**
	−100 BP	36	90	5	0	−21	−10	**19**	**80**

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

The majority of assets (EUR 501 million) in Level 3 consist of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. The default risk of these transactions was insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees is set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 27 million by mid-2015 (year-end 2014: EUR 34 million).

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

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

	30/06/2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Amounts due from banks (excluding cash collateral and current accounts)	380	1,720	13	2,113
Loans and advances (excluding current accounts)	553	95,339	7,734	103,626
TOTAL FINANCIAL ASSETS	**933**	**97,059**	**7,747**	**105,739**
Amounts due to banks (excluding cash collateral and current accounts)	–	–	2,031	2,031
Debt securities	54,788	58,987	–	113,775
Funds entrusted (excluding current accounts)	–	–	4,626	4,626
Subordinated debts	–	–	48	48
TOTAL FINANCIAL LIABILITIES	**54,788**	**58,987**	**6,705**	**120,480**

				31/12/2014
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Amounts due from banks (excluding cash collateral and current accounts)	441	518	14	973
Loans and advances (excluding current accounts)	558	95,453	7,694	103,705
TOTAL FINANCIAL ASSETS	**999**	**95,971**	**7,708**	**104,678**
Amounts due to banks (excluding cash collateral and current accounts)	–	–	1,717	1,717
Debt securities	56,799	55,149	–	111,948
Funds entrusted (excluding current accounts)	–	–	6,114	6,114
Subordinated debts	–	–	50	50
TOTAL FINANCIAL LIABILITIES	**56,799**	**55,149**	**7,881**	**119,829**

The financial assets at amortised cost 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 were reclassified under the balance sheet item ‘Loans and advances’ since 2008, having previously been recognised under the balance sheet item ‘Financial assets available-for-sale’, to the extent revaluation is effected using data that is not publicly observable in the market. Loans and advances to statutory counterparties under government guarantees are included in Level 2 on account of the strong correlation with bonds issued by the Dutch State. The financial liabilities at amortised cost under Level 1 mainly relate to negotiable benchmark bonds issued by BNG Bank. Privately withdrawn resources are classified under Level 3.

	30/06/2015	31/12/2014
OFF-BALANCE SHEET COMMITMENTS		
Contingent liabilities	97	172
Irrevocable facilities	6,145	5,326

The off-balance sheet commitments consist primarily of contingent liabilities and irrevocable facilities. Contingent liabilities are all commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. To a limited extent, these guarantees are covered by a counter guarantee from public authorities. These are mainly Letters of Credit with a remaining contractual maturity of more than five years, which the bank has issued on behalf of clients in the public utilities sector. BNG Bank records these liabilities at the underlying principal amount that would need to be paid in the event of the borrower defaulting. Irrevocable facilities involve irrevocable commitments which can lead to the granting of loans and advances. BNG Bank also states these obligations at the underlying, not yet recorded, principal amount.

EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that require disclosure or adjustments to the figures in the Interim Report. ■

The Hague, 28 August 2015

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

O. J. LABE

J.C. REICHARDT

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN

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J.J. NOOITGEDAGT

Review **Report**

Review Report

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

ENGAGEMENT

We have reviewed the accompanying consolidated interim financial information of N.V. Bank Nederlandse Gemeenten in The Hague, which comprises the consolidated balance sheet as at 30 June 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the period from 1 January to 30 June 2015 inclusive, and the notes, comprising a summary of the significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the interim financial information based on our review.

SCOPE

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information as at 30 June 2015 was not prepared, in all material aspects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. ■

Amsterdam, 28 August 2015

ERNST & YOUNG ACCOUNTANTS LLP

SIGNED W.J. SMIT

COLOPHON

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