Interim report

BNG Bank **2020**

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Profile

Mission and strategy

Mission

BNG Bank is a committed partner for a more sustainable world. We enable the public sector to achieve socially relevant objectives.

Strategy

- BNG Bank provides financing for all maturities while keeping prices to a minimum.
- By providing financial solutions, payment services and expertise, BNG Bank enables clients to achieve their social objectives.
- BNG Bank builds lasting relationships with stakeholders and responds proactively to their requirements.
- BNG Bank's services are always available, irrespective of the situation on the financial markets.

Core values

BNG Bank's core values are sustainable, reliable and professional:

- sustainable is interpreted by BNG Bank as simultaneously serving economic, environmental and social interests. This notion is inextricably linked to BNG Bank's mission;
- In the light of its public role, reliable means that BNG Bank is a safe bank due to the shareholding of Dutch public authorities and largely solvency-free lending, which is visible to and distinctive for stakeholders; and
- professional means that BNG Bank continuously develops its services, staff and information provision.

Strategic objectives

BNG Bank is a relevant player in the funding of Dutch local authorities as well as in the housing, healthcare, education, energy, environment, mobility and networks sectors. BNG Bank aims to meet more than half of the long-term credit demand from these sectors. The market share indicates the extent to which BNG Bank achieves this. BNG Bank aims to achieve a reasonable return, rather than maximise profit. Through dividends, this return accrues to the public authority shareholders.

BNG Bank is a **committed partner** for a **more sustainable world**. We enable the **public sector** to achieve **socially relevant objectives**.

Conditions

The combination of the lowest possible lending rates and a reasonable return for shareholders is feasible because two conditions are met: an excellent risk profile and an efficient organisation.

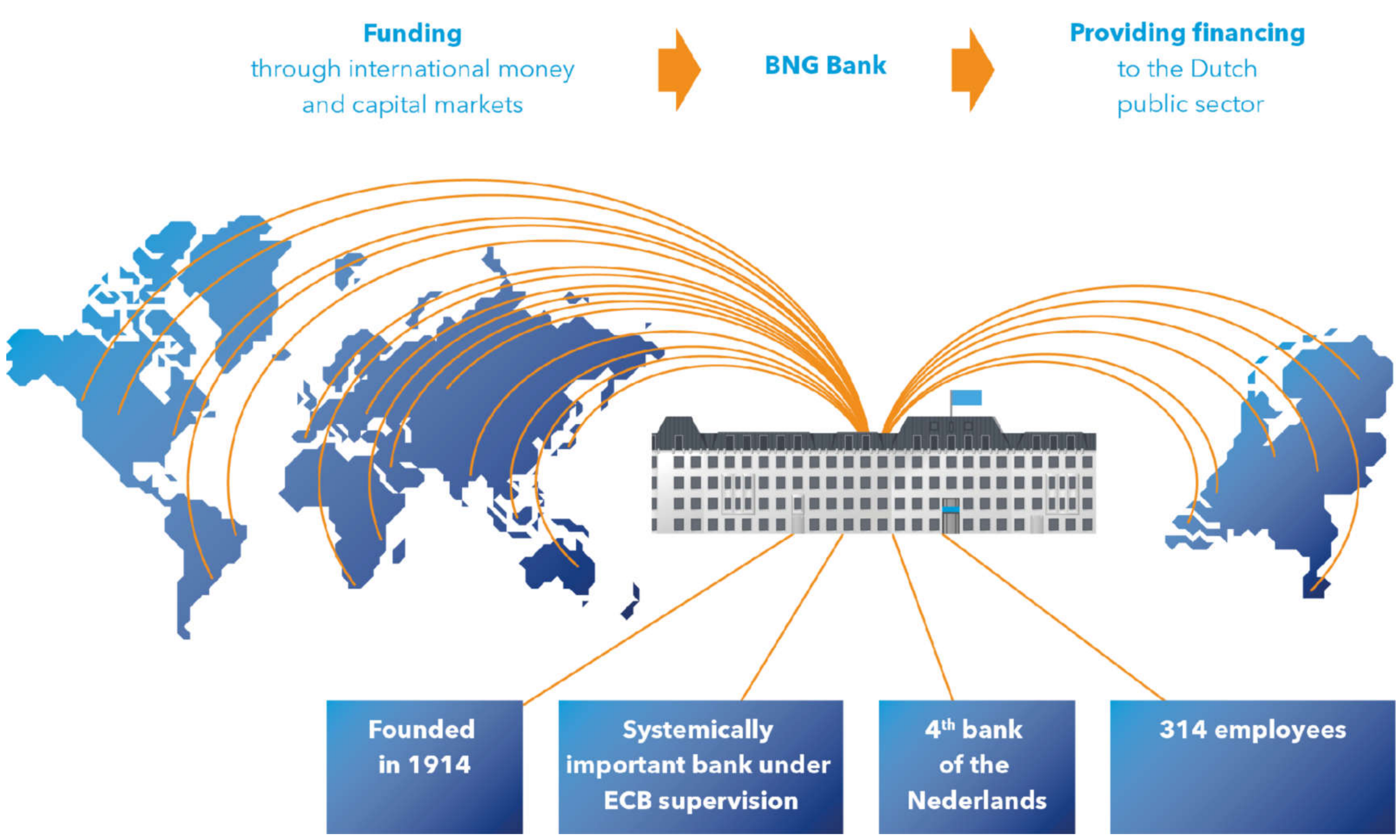
Sustainable Development Goals

The 17 Sustainable Development Goals (SDGs) will be important agenda items for the government and the business community until 2030. These SDGs are aimed at ensuring peace and prosperity for people and the world, now and in the future, and were endorsed in 2015 by all Member States of the United Nations. BNG Bank contributes to the SDGs as well, and they guide the bank's actions in both the short and the long term. BNG Bank focuses on the SDGs that are closest to the services it provides.

Business model

BNG Bank acts as an intermediary between the international money and capital markets and the Dutch public sector. BNG Bank has been providing financing to the public sector since 1914, at competitive terms and conditions and for all maturities, irrespective of the situation on the financial markets. The majority of the loans provided (more than 90%) are loans to government bodies that are guaranteed by government bodies. These loans are not subject to solvency requirements and have a risk weighting of 0%. BNG Bank also takes care of payment transactions for clients.

BNG Bank is seen as a safe bank thanks to the shareholding of Dutch public authorities and largely solvency-free lending. BNG Bank has the highest external credit ratings (Moody's: Aaa, FitchRatings: AAA, S&P Global: AAA). BNG Bank consequently has a strong funding position on the international money and capital markets. Short- and long-term funding in various currencies can be raised at low prices. BNG Bank is one of the largest bond issuers in the Netherlands and can offer low rates to clients.



Developments first half of 2020

Key events

January 2020	**Sustainability of sports facilities** Sports associations are able to apply for a loan from the BNG Sustainability Fund to make their accommodation more sustainable. Thanks to a guarantee underwritten by Stichting Waarborgfonds voor de Sport, it is possible to provide these loans at an attractive rate of interest. This expansion of the BNG Sustainability Fund is part of the 'Sports Sustainability Roadmap', which is supported by, for example, the Ministry of Health, Welfare and Sport, NOC*NSF and the Association of Sports and Municipalities.
March 2020	**COVID-19 pandemic** The COVID-19 pandemic has far-reaching social consequences, also for clients of BNG Bank. BNG Bank is therefore committed to helping clients through this difficult period and ensuring continuity of service. The bank has sufficient access to the capital market to raise funding and has sufficient liquidity to provide clients with finance. BNG Bank also participates in the Task Force Corona of the Netherlands Bankers' Association, with the aim of supporting clients as much as possible during this crisis period. **Promoting sustainable capital markets** BNG Bank and Government Pension Investment Fund (GPIF) from Japan, the world's largest pension fund, will work together to promote sustainable capital markets. BNG Bank's sustainability bonds are issued in line with the international Sustainability Bond Guidelines, which are administered by the International Capital Market Association (ICMA). These bonds offer GPIF asset managers the opportunity to contribute to a sustainable society.
April 2020	**Dividend payment for 2019 postponed** When its annual figures for 2019 were published, BNG Bank proposed to distribute a dividend to shareholders. However, the ECB has expressly recommended either to suspend the payment of the dividend until at least 1 October 2020 or to cancel the 2019 dividend payment altogether. The background to this is the significant impact that the COVID-19 pandemic is having on the economy and the role that is foreseen for banks to mitigate the effects as much as possible.The Supervisory Board and Executive Board has decided to postpone payment of the dividend for 2019 by BNG Bank until at least 1 October 2020. In July 2020 the ECB recommended to postpone the 2019 dividend payment until after 31 December 2020. The Supervisory Board and the Executive Board decided to follow the recommendation and to postpone the dividend payment until after December 31, 2020.

	Jan van Rutte and Johan Conijn reappointed as Supervisory Board members The General Meeting of Shareholders reappointed Jan van Rutte and Johan Conijn as members of the Supervisory Board for a second term of four years on the recommendation of the Supervisory Board. **Working together on the continued development of the Netherlands** More than 30 parties, including BNG Bank, have indicated in a joint statement that they will make efforts and take responsibility to prevent possible negative consequences of the COVID-19 pandemic and to safeguard the continuity of construction output and employment as much as possible. The parties are working together to meet the high demand for housing and to accelerate the task of making the existing premises from the Climate Agreement more sustainable.
June 2020	**BNG Bank supports Dutch companies' sustainability statement** Nearly 250 companies, including BNG Bank, have signed the statement entitled 'Dutch businesses endorse sustainability in COVID-19 recovery', in which they advocate taking sustainability as the cornerstone for COVID-19 recovery plans. This statement was drawn up on the initiative of the Dutch Sustainable Growth Coalition (DSGC), which brings together eight Dutch multinationals. The DSGC strives for sustainable growth by combining economic gains with social developments and contributing to the SDGs.

Impact of COVID-19 pandemic

The COVID-19 pandemic has far-reaching financial and social consequences, both for clients of BNG Bank and for the bank itself. The global recession is causing a chain reaction of developments, leading to a drop in demand and reduced production, with a sharp contraction of the global economy in 2020 as a consequence. A gradual economic recovery is expected in 2021, but activity in several sectors will remain at a lower level for a long time to come. A full economic recovery can only be expected after a vaccine has become sufficiently available.

Impact on clients

The COVID-19 pandemic has a major financial and social impact on the bank's clients. Of BNG Bank's client sectors, healthcare institutions and municipalities in particular play an important role in combating the virus and implementing the measures taken by the government. They are suffering severe financial consequences from this. BNG Bank has access to sufficient liquidity to provide loans and does what is possible to help its clients. In the NVB context, BNG Bank participates in initiatives to help clients, for example by deferring repayments of loans up to EUR 2.5 million in order to provide extra financial relief.

Impact on financial markets

Due to the COVID-19 pandemic, prices for borrowing and for hedging interest rate risks on the financial markets are highly volatile. Although BNG Bank has always had good access to the capital market since the beginning of the crisis, the price that had to be paid for long-term financing was higher than before the crisis. As a result of this, BNG Bank was forced to raise its lending rates. BNG Bank lowered the rates again as soon as this was possible.

Impact on employees

The COVID-19 pandemic is also having a far-reaching impact on the bank's organisation and employees. The Calamity Management Team (CBT), consisting of those responsible for HR, Security, IT and Facility Services, among others, met for the first time at the beginning of March and subsequently held frequent consultations on appropriate measures. Working from home and digital meetings are encouraged. If it is not possible to work from home, employees of critical departments will be dispersed throughout The Hague or work at the specially equipped location in Zoetermeer.

The COVID-19 **pandemic** has **far-reaching financial** and **social consequences**, both for **clients**, and for the **bank** itself.

Employees are supported and kept involved by the bank and by one another. Every week, a video chat is held between the Executive Board and employees, and teams hold virtual starts to the day and the week. BNG Bank also facilitates working from home by making digital tools available, possibilities for improved home workspace design and providing advice on working from home.

Impact on financial result

The COVID-19 pandemic is having a negative impact on BNG Bank's financial result. The financial result depends on many factors, such as the development of interest rates, credit and liquidity spreads, and now also the further course of the COVID-19 pandemic, which means that it is not possible to make a pronouncement about the development of the 2020 net profit. Given its strong capitalisation and excellent risk profile, the bank does not expect the COVID-19 pandemic to pose a threat to continuity.

Payment of dividend for 2019

Following its advice to postpone the 2019 dividend payment until 1 October 2020, in July 2020 the ECB recommended European banks, including BNG Bank, to postpone the 2019 dividend payment until after 31 December 2020. This is because of the role envisaged for banks to mitigate, as far as possible, the negative effects on clients and on the economy due to the COVID-19 pandemic. In response to questions from BNG Bank, the regulator has informed BNG Bank that the recommendation to defer the dividend payment is of a temporary nature. Against this background, the Supervisory Board and the Executive Board decided to follow the recommendation.

Committed partner for a more sustainable world

Commitment of financial sector to climate agreement

Despite the COVID-19 pandemic, the financial sector's commitment to the government's climate targets remains undiminished. To that end, BNG Bank has joined the PCAF, the Partnership for Carbon Accounting Financials. According to the PCAF methodology, direct and indirect emissions of the client are attributed to the bank on the basis of a set of overarching valuation rules. This methodology is used by a large majority of Dutch banks and a growing number of foreign banks. The results of the first impact measurement of the loan portfolio became available at the end of 2019 (see 2019 Annual Report). The calculation was carried out by the University of Tilburg Telos Institute. BNG Bank will also report on the CO_2 impact of lending for the 2020 financial year. No later than in 2022, BNG Bank will publish an action plan for its contribution to the reduction of CO_2 emissions.

Own operations

In its operations, BNG Bank also aims to operate on a climate-neutral basis, use materials and energy as efficiently as possible and reduce its own CO_2 footprint. In order to monitor progress, BNG Bank annually reports the CO_2 emissions of its own operations. Sustainability is taken into account in decision-making on subjects such as housing, procurement, ICT and travel policy. BNG Bank uses green energy for its electricity supply and part of the CO_2 emissions are offset. In the coming period, BNG Bank will also continue to pay attention to the impact of climate change on its own business operations and measures will be taken where necessary.

By signing the **Climate Agreement**, BNG Bank commits itself to contributing to the **fight against climate change**.

Other BNG Bank developments

Credit control

BNG Bank has a qualitatively strong loan portfolio and the percentage of bad debts in relation to the total loan portfolio is very low. For the 2019 financial year, however, BNG Bank has had to make a provision that is significant in historical terms. Credit losses of this magnitude are exceptional at BNG Bank. As a result, an investigation into the quality of the lending and credit management process was conducted at the beginning of this year. This investigation showed that there are no items of this kind in the bank's loan portfolio. However, a number of areas for improvement did emerge, directed towards improving insight into the bank's clients and detecting any adverse developments at an early stage. In line with European regulations, BNG Bank will look more explicitly and in a more uniform manner at the creditworthiness of all its clients. Internal processes will be reviewed and aligned with market best practices.

Notes to the financial results for the first half of 2020

3

Notes to the financial results for the first half of 2020

The net profit of BNG Bank for the first half of 2020 amounts to EUR 100 million. The 21% decrease compared with the first half of 2019 is mainly due to the impact of the COVID-19 pandemic outbreak in March 2020. Nevertheless, the bank looks back positively on the financial results in the first half of the year given the severity of the COVID-19 pandemic. On balance, due to the outbreak, the result on financial transactions was negatively affected by revaluations of financial instruments as a result of the higher credit and liquidity risk premiums. In addition, the bank had to increase the provision for expected credit losses as a result of the negative economic outlook.

The COVID-19 pandemic has had a major impact on the healthcare sector. Because the government and health insurers have set up a safety net for the healthcare sector, the consequences for BNG Bank are limited for the time being. The demand for credit, particularly from municipalities, was higher than expected, partly due to the financial consequences of the COVID-19 pandemic. In the first four months, the volume of new long-term loans exceeded EUR 1 billion per month. The sale of Eneco shares by local authorities in the last two months of the first half of the year had a negative effect on the bank's lending, partly due to the use of mutual borrowing. This period also saw a sharp decline in short-term lending to municipalities. The COVID-19 pandemic had no noticeable consequences for the demand for credit from housing associations. New long-term loans amounted to EUR 5.4 billion in the reporting period, a decrease of EUR 0.8 billion compared with the first half of 2019. Relative to year-end 2019, the long-term loan portfolio rose by EUR 1.2 billion to EUR 85.4 billion.

BNG Bank raised a total of EUR 9.8 billion in long-term funding through bond issues in the first half of the year. In terms of funding, the first half of the year was a turbulent period. In the first two months, the situation on the financial markets was similar to last year with ample liquidity at very low prices. During this period, BNG Bank raised a total of EUR 3.4 billion of long term funding of which EUR 2 billion in one transaction with a maturity of 10 years. However, the situation rapidly deteriorated in March and the market virtually closed during a couple of weeks. Afterwards the market gradually re-opened, initially with sharply increased credit en liquidity spreads. At the end of March, the bank placed a EUR 1.5 billion, 5-year benchmark issue. In the second quarter, the bank's credit spread gradually decreased again. During this period, EUR 4.9 billion was raised through long-term bond issues, including two USD benchmark issues with maturities of 3 and 10 years. BNG Bank also decided to participate in the ECB's third 'Targeted Longer-Term Refinancing Operation' (TLTRO) because of the very favourable terms and conditions. The purpose of this TLTRO is to stimulate the real economy by providing liquidity at very low rates.

At EUR 225 million, BNG Bank's interest result was substantially higher than forecast and higher than the interest result for the same period in 2019, despite the pressure on the interest result due to persistently low interest rates. The decision to invest the bank's internal funds for longer had a positive impact. The increase of the long-term loan portfolio also contributed to the increase of the interest result. The sometimes very attractive short-term funding rates have a positive effect on the margin on short-term exposures. Restructuring of client portfolios and early repayments of long-term loans also resulted in an above-average contribution to interest income of EUR 7 million.

On balance, the result on financial transactions was EUR 14 million negative. The decrease of EUR 35 million in relation to the comparable period in 2019 was mainly caused by higher premiums for credit and liquidity risks on interest-bearing securities and loans as a result of the outbreak of the COVID-19 pandemic. On balance, the effects on the revaluation of financial assets at fair value through the income statement amounted to EUR 36 million negative. As a result of the further decline in long-term interest rates, the value of the credit component of customer swaps decreased by almost EUR 7 million. Realised results were on balance EUR 10 million positive, partly due to the sale of interest-bearing securities from the bank's liquidity portfolio.

The consolidated operating expenses increased by EUR 6 million to EUR 44 million compared with the same period in 2019. Particularly the costs of IT and hiring external support increased, in part due to the need to facilitate workplaces at home and invest in new systems in response to the COVID-19 pandemic. Advisory fees also increased as a result of the activities related to the incidental large credit loss in 2019. BNG Bank's contribution to the European Resolution Fund in 2020 has been set, as expected, at nearly EUR 8 million and was paid in June 2020.

The deteriorated economic outlook following the outbreak of the COVID-19 pandemic led to an increase of the bank's total expected credit losses of EUR 27 million to EUR 232 million in the first half of 2020. Compared with the underlying exposure of around EUR 145 billion, the total expected credit losses remain low, reflecting the high creditworthiness of the bank's exposures.

With a total tax charge of EUR 48 million, the effective tax rate for the first half of the year was almost 32%. The thin cap rule came into effect in 2020. As a result, part of the bank's interest expenses is not deductible to the extent that the bank's leverage ratio (LR) at the end of the previous year is lower than 8%. As the bank's leverage ratio at the end of 2019 was 3.6%, the additional tax charge in the first half of 2020 amounts to approximately EUR 11 million.

Compared with year-end 2019, the balance sheet total increased by EUR 17.3 billion to EUR 167.0 billion, mainly as a result of the fall in long-term interest rates and the bank's decision to maintain higher liquidity buffers in this period of crisis. Because of this, the Cash and cash equivalents item has increased by EUR 6.4 billion. The Loans and advances item increased by approximately EUR 0.4 billion, due to the growth in the long-term loan portfolio.

The further decrease in long-term interest rates is reflected in the increase of the balance sheet items derivatives, cash collateral and value adjustments on loans in portfolio hedge accounting.

In the reporting period, BNG Bank's equity remained virtually unchanged at EUR 4.9 billion. The net profit largely compensates for the decrease in total unrealised reserves. The risk-weighted solvency ratios decreased due to an increase of total risk-weighted assets. The bank's risk weighted exposure has increased due to the growth of the loan portfolio and the fall in interest rates. BNG Bank's Common Equity Tier 1 ratio and Tier 1 ratio were 31% and 36% respectively at the end of June 2020. Due to the increase of the balance sheet total, the bank's leverage ratio decreased by 0.4 percentage points to 3.2% compared with year-end 2019.

Outlook

Due to the current COVID-19 pandemic, the volatility in the financial markets is expected to remain particularly high this year. As a consequence, the bank does not consider it wise to make a statement on the expected results for 2020. Please note that reliable estimates of future market value adjustments or additional impairments are difficult by definition.

Nevertheless, due in part to the low interest rates, BNG Bank expects to exceed the annual target for new long-term loans of EUR 10 billion. As a consequence of the far-reaching social and financial consequences of the COVID-19 pandemic, clients remain uncertain. BNG Bank will continue to do everything possible to support its clients.

Partly as a result of the increase of the long-term loan portfolio, BNG Bank has decided to increase its long term capital market funding target by EUR 1 billion to EUR 16 billion in 2020. Among others, two new Socially Responsible Investing bonds (SRI bonds) are expected to be issued in the second half of 2020.

The introduction of new reference rates in accordance with the European Benchmarks Regulation (BMR) is in full swing. Reference rates must be representative of the relevant market and based on concluded transactions. The ECB benchmark working group has introduced €STR (Euro Short Term Rate) as the alternative to EONIA. On 27 July 2020, the central clearing parties LCH and Eurex switched from EONIA to €STR for the valuation of derivatives. As a result the derivatives in question are on balance worth less to BNG Bank. To compensate this effect, the bank received a one-off payment from LCH and Eurex. A similar settlement with the other financial counterparties is expected to be determined in the coming months. BNG Bank aim at processing those transactions in such a way that the income statement will not be impacted.

BNG Bank's consolidated operating expenses will increase in the second half of the year. Operating expenses for the whole of 2020 are expected to amount to approximately EUR 93 million. The costs of hiring permanent and external staff will increase in the coming quarters as a result of the gradual filling of staff positions and the external support needed to improve the credit process. The costs for IT are increasing as a result of extra costs for setting up or extending IT applications and for the support in setting up home workspaces. The contribution to the statutory bank levy in 2020 amounts to EUR 34 million and will be paid in October.

Based on the current situation, the interest result for 2020 should range between EUR 460 million and EUR 500 million, which is higher than what was expected at the end of 2019. This is explained by the higher interest result in the first half of the year, the increase of the long-term loan portfolio, the persistently favourable rates for short-term funding and the favourable terms and conditions of the ECB's TLTRO support funding.

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, the performance during the first half year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated Interim Report. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2019 Financial Statements.

The Hague, 4 September 2020

Executive Board

Gita Salden
Chair

Olivier Labe
CFO

John Reichardt
CRO

Consolidated interim financial statements

An unqualified audit opinion has been issued for the figures as at 31 December 2019 and for the 2019 financial year as a whole. An unqualified review report has been issued for the figures as at 30 June 2020, as well for the first half of 2020 and 2019 respectively.

Consolidated balance sheet

Amounts in millions of euros

	NOTE	30/6/2020	31/12/2019
Assets			
Cash and balances held with central banks		7,695	1,272
Amounts due from banks		59	66
Cash collateral posted		18,861	14,643
Financial assets at fair value through the income statement		1,516	1,764
Derivatives		10,708	10,004
Financial assets at fair value through other comprehensive income		10,213	9,222
Interest-bearing securities at amortised cost		8,064	7,764
Loans and advances at amortised cost		88,681	88,279
Value adjustments on loans in portfolio hedge accounting		20,950	16,462
Associates and joint ventures		36	35
Property and equipment		17	18
Current tax assets		58	30
Other assets		117	130
Total assets		**166,975**	**149,689**
Liabilities			
Amounts due to banks		9,789	1,933
Cash collateral received		1,279	1,137
Financial liabilities at fair value through the income statement		691	674
Derivatives		26,724	22,651
Debt securities	1	117,472	112,661
Funds entrusted		5,890	5,575
Subordinated debts		33	33
Deferred tax liabilities		48	78
Other liabilities		193	60
Total liabilities		**162,119**	**144,802**
Equity			
Share capital		139	139
Share premium reserve		6	6
Retained earnings		3,705	3,567
Revaluation reserve		60	84
Cash flow hedge reserve		15	13
Own credit adjustment		10	8
Cost of hedging reserve		88	174
Net profit		100	163
Equity attributable to shareholders		**4,123**	**4,154**
Hybrid capital		733	733
Total equity		**4,856**	**4,887**
Total liabilities and equity		**166,975**	**149,689**

Consolidated income statement

Amounts in millions of euros	NOTE	first half of 2020		first half of 2019	
– Interest revenue calculated using the effective interest method		2,302		2,440	
– Other interest revenue		232		331	
Total interest revenue			2,534		2,771
– Interest expenses calculated using the effective interest method		2,263		2,524	
– Other interest expenses		46		47	
Total interest expenses			2,309		2,571
Interest result	2		225		200
– Commission income		14		16	
– Commission expenses		2		1	
Commission result			12		15
Result on financial transactions	3		–14		21
Results from associates and joint ventures			3		0
Other results			1		1
Total income			**227**		**237**
Staff costs			21		20
Other administrative expenses			21		16
Depreciation			2		2
Total operating expenses			**44**		**38**
Net impairment losses on financial assets	4		27		20
Net impairment losses on associates and joint ventures			0		1
Contribution to resolution fund			8		8
Total other expenses			**35**		**29**
Profit before tax			**148**		**170**
Income tax expense			48		42
Net profit			**100**		**128**
– of which attributable to the holders of hybrid capital			25		22
– of which attributable to shareholders			75		106

Consolidated statement of comprehensive income

Amounts in millions of euros. All figures in the statement are after taxation.

	first half of 2020			first half of 2019		
Net profit			**100**			**128**
Recyclable results recognised directly in equity						
Changes in cash flow hedge reserve:						
– Unrealised value changes	2			3		
		2			3	
Changes in cost of hedging reserve:						
– Unrealised value changes	-86			-97		
– Realised value changes transferred to the income statement	0			-		
		-86			-97	
Changes in the revaluation reserve for financial assets at fair value through other comprehensive income:						
– Unrealised value changes	-19			8		
– Realised value changes transferred to the income statement	-5			-9		
		-24			-1	
Total recyclable results		**-108**			**-95**	
Non-recyclable results recognised directly in equity:						
– Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL	2			0		
Total non-recyclable results		**2**			**0**	
Results recognised directly in equity			**-106**			**-95**
Total			**-6**			**33**
– of which attributable to the holders of hybrid capital			0			22
– of which attributable to shareholders			-6			11

Consolidated cash flow statement

Consolidated cash flow statement Amounts in millions of euros	first half of 2020	first half of 2019
Cash flow from operating activities		
Profit before tax	148	170
Adjusted for:		
– Depreciation	2	2
– Impairments	28	22
– Unrealised results through the income statement	24	-11
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	-44	382
– Changes in Cash collateral posted and received	-4,078	-2,992
– Changes in Loans and advances	-301	-749
– Changes in Funds entrusted	301	2,136
– Changes in Derivatives	-85	151
– Corporate income tax paid	-77	-133
– Other changes from operating activities	-118	-153
Net cash flow from operating activities	**-4,200**	**-1,175**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
– Financial assets at fair value through the income statement	-1	-1
– Financial assets at fair value through other comprehensive income	-2,723	-897
– Interest-bearing securities at amortised cost	-1,668	-896
– Investments in associates and joint ventures	-	-
– Property and equipment	-1	-1
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	285	16
– Financial assets at fair value through other comprehensive income	1,755	1,339
– Interest-bearing securities at amortised cost	1,459	1,066
– Investments in associates and joint ventures	-	1
– Property and equipment	-	-
Net cash flow from investing activities	**-894**	**627**

	first half of 2020	first half of 2019
Cash flow from financing activities		
Amounts received on account of:		
– Central bank financing (TLTRO)	8,000	-
– Financial liabilities at fair value through the income statement	6	6
– Debt securities	97,302	224,464
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	–16	–67
– Debt securities	–93,748	–213,591
– Subordinated debt	0	0
– Dividend distribution on hybrid capital	–25	–25
– Dividend distribution to shareholders	-	–159
Net cash flow from financing activities	**11,519**	**10,628**
Net change in cash and cash equivalents	**6,425**	**10,080**
Cash and cash equivalents as at 1 January	1,276	1,591
Cash and cash equivalents as at 30 June	**7,701**	**11,671**
Cash and cash equivalents as at 30 June:		
– Cash and balances held with central banks	7,695	11,670
– Cash equivalents in the Amount due from banks item	7	3
– Cash equivalents in the Amount due to banks item	–1	–2
	7,701	**11,671**
Interest cash flow from operating activities		
Interest income received	2,957	2,902
Interest expenses paid	–2,813	–2,773
	144	**129**

Consolidated statement of changes in equity

Consolidated statement of changes in equity

Amounts in millions of euros. All figures in the statement are after taxation.

FIRST HALF OF 2020	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	OWN CREDIT ADJUST-MENT	COST OF HEDGING RESERVE	RE-TAINED EARNINGS	UN-APPRO-PRIATED PROFIT	EQUITY ATTRIBU-TABLE TO SHARE-HOLDERS	HYBRID CAPITAL	TOTAL
Balance as at 01/01/2020	**139**	**6**	**84**	**13**	**8**	**174**	**3,567**	**163**	**4,154**	**733**	**4,887**
Net profit	-	-	-	-	-	-	-	100	100	-	100
Movement in OCA	-	-	-	-	2	-	-	-	2	-	2
Movement in Cost of hedging	-	-	-	-	-	-86	-	-	-86	-	-86
Unrealised results	-	-	-24	2	-	-	-	-	-22	-	-22
Total comprehensive income	**-**	**-**	**-24**	**2**	**2**	**-86**	**-**	**100**	**-6**	**-**	**-6**
Dividend distribution to the bank's shareholders	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution to holders of hybrid capital	-	-	-	-	-	-	-25	-	-25	-	-25
Appropriation from previous year's profit	-	-	-	-	-	-	163	-163	-	-	-
Balance as at 30/06/2020	**139**	**6**	**60**	**15**	**10**	**88**	**3,705**	**100**	**4,123**	**733**	**4,856**

Consolidated statement of changes in equity

Amounts in millions of euros. All figures in the statement are after taxation.

FIRST HALF OF 2019

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OWN CREDIT ADJUSTMENT	COST OF HEDGING RESERVE	RETAINED EARNINGS	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
Balance as at 01/01/2019	**139**	**6**	**125**	**10**	**9**	**222**	**3,410**	**337**	**4,258**	**733**	**4,991**
Net profit	-	-	-	-	-	-	-	128	**128**	-	128
Movement in OCA	-	-	-	-	-	-	-	-	**0**	-	0
Movement in Cost of hedging	-	-	-	-	-	-97	-	-	**-97**	-	-97
Unrealised results	-	-	-1	3	-	-	-	-	**2**	-	2
Total comprehensive income	**-**	**-**	**-1**	**3**	**-**	**-97**	**-**	**128**	**33**	**-**	**33**
Dividend distribution to the bank's shareholders	-	-	-	-	-	-	-159	-	-159	-	-159
Dividend distribution to holders of hybrid capital	-	-	-	-	-	-	-22	-	-22	-	-22
Appropriation from previous year's profit	-	-	-	-	-	-	337	-337	-	-	-
Balance as at 30/06/2019	**139**	**6**	**124**	**13**	**9**	**125**	**3,566**	**128**	**4,110**	**733**	**4,843**

Accounting principles for the consolidated interim financial statements

General company information

The consolidated Interim Report is prepared and issued for publication by the Executive Board on 4 September 2020. BNG Bank N.V. (hereafter 'BNG Bank') is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2 in The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

Applicable laws and regulations

The consolidated Interim Report is prepared in accordance with IAS 34 Interim Financial Reporting, as adopted throughout 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 2019 Consolidated Financial Statements. In preparing this consolidated Interim Report, the same system was applied to significant estimates and methods as that for the 2019 consolidated Financial Statements except for the adoption of new amended standards. Furthermore we have established whether COVID-19 pandemic has no further impact on estimates and methods for the consolidated Interim Report.

Critical accounting principles applied for valuation and the determination of the result

The consolidated Interim Report is prepared on the basis of the going-concern principle. Most balance sheet items are valued at amortised cost. The balance sheet items Financial assets at fair value through the income statement (FVTPL), Financial assets at fair value through other comprehensive income (FVOCI), Derivatives and Financial liabilities at fair value through the income statement (FVTPL) are measured at fair value. The balance sheet item 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. Income is recognised if it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated where possible to the period in which the services were provided or to the related income counterbalancing these expenses. For a detailed description, please refer to the accounting principles for the individual balance sheet items.

Accounting principles for consolidation

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

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

Impact of COVID-19 on Interim Report

Due to the world-wide outbreak of COVID-19 pandemic, the first half of 2020 was different than any other. The outbreak had an influence on everyone, also on BNG Bank, both operationally and financially. Depending on the duration of the COVID-19 pandemic and continued negative impact on economic activity, the company may experience further negative results, liquidity restraints and incur additional impairments on its assets in 2020. The exact impact on our activities in the remainder of 2020 and thereafter cannot be predicted. Whilst uncertain, we do not believe, however, that the impact of COVID-19 virus would have an material adverse effect on our financial condition or funding & liquidity. We refer to the report of the executive board for the impact of COVID-19 pandemic on the bank's operations.

Further details of the impact of COVID-19 pandemic on financial results and significant estimates and methods used is provided in the relevant notes.

Changes in presentation of comparative figures

At the end of March 2020, we executed an in-dept review on the Letters of Credit after we got an indication of an omission at that time. We concluded the previously disclosed data was not complete, and as a result an additional amount of EUR 1.553 million, for four transactions entered into in 2012 (USD 506 million) and 2015 (USD 1.238 million), is currently added to our off-balance sheet exposure. We concluded that there is limited impact to prior and current (interim) financial statements as a result of this omission, since the CET1-ratio and Tier 1-ratio in current and prior years are not impacted, as well as any Balance Sheet or Statement of profit and loss line items of current and prior years.

The comparative figures of 'contingent liabilities' are changed in the following tables:
- Breakdown of financial assets and off-balance sheet commitments into impairment stages
- Forborne exposures
- Off-balance

Applicable laws and regulations

The consolidated Interim Report was prepared in accordance with the IFRS, as issued by the International Accounting Standards Board (IASB) and adopted throughout the European Union. The consolidated interim figures of BNG Bank were prepared in accordance with the principles and calculation methods applied for the 2019 Financial Statements.

In general, BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has, in principle, also decided against the early application of the amended standards and interpretations adopted by the EU, whose application is mandatory for the financial years after 1 January 2020. An exemption has been made for the amendments related to the Interest Benchmark Reform concerning phase 1. A further description is stated in the Financial Statements of 2019.

Application of the following new or amended standards, interpretations and improvements have not led to significant adjustments in this 2020 consolidated Interim Report in respect of valuation, the determination of the result and the disclosures of the bank.

Applied accounting standards adopted by the EU effective on or after 1 January 2020

- Amendments to IFRS 9, IAS 39 and IFRS 7: In September 2019, the IASB issued the Interest Rate Benchmark Reform. The EU endorsed the amendment on 15 January 2020. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendment is related to phase 1 of the Interest Rate Benchmark Reform. The amendment is effective for annual reporting periods beginning on or after 1 January 2020. BNG Bank has chosen to early apply the amendments to IFRS 9/IAS 39 for the reporting period ending 31 December 2019.
- Improvements to IFRS Standards IFRS 3 'Business combinations' and IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. This improves the understanding of the definitions 'business' and 'material'. The improvements have no impact on BNG Bank.

Accounting standards not adopted by the EU which are not yet applied

There are no other standards that are not yet effective that would be expected to have material impact on the Bank in the current or future reporting periods and on foreseeable transactions.

Segmented information

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

Dividend

The proposed dividend of EUR 71 million for the 2019 financial year, following the General Meeting of Shareholders held in the first half of 2020, is not yet paid. The ECB has recommended European banks to postpone the payment of this dividend until after 31 December 2020. In response to questions from BNG Bank, the regulator has explicitly informed the bank that the recommendation to postpone the dividend payment is temporary in nature. Against this background, the Supervisory Board and the Executive Board have decided to follow the recommendation. The dividend of EUR 25 million to the holders of the hybrid capital is distributed in the first half of 2020. This distribution is not deductible from corporate income tax. BNG Bank has no plans to pay out an interim dividend on the result for the first half of 2020.

Notes to the consolidated interim financial statements

1 Debt securities

The debt securities item rose by EUR 4.8 billion in the first half of 2020. Mainly due to a EUR 2.9 billion increase in bond loans and a EUR 2.0 billion increase in short-term funding (in the form of Commercial Paper).

In addition, the total value adjustment for long-term debt securities involved in micro hedge accounting showed an increase of approximately EUR 1.8 billion. With regard to its long-term funding activities, BNG Bank issued EUR 9.8 billion of long-term debt securities in the first half of 2020 (first half of 2019: EUR 10.2 billion). The total redemption value of long-term debt securities amounted to EUR 8.1 billion in the reporting period (first half of 2019: EUR 9.7 billion).

2 Interest result

	FIRST HALF OF 2020		FIRST HALF OF 2019	
Interest revenue				
Interest revenue calculated by using the effective interest method:				
– Financial assets at amortised cost	1,034		1,080	
– Financial assets at fair value through other comprehensive income	61		75	
– Derivatives involved in hedge accounting	1,175		1,266	
– Negative interest expenses on financial liabilities	32		19	
		2,302		2,440
Other interest revenue:				
– Financial assets designated at fair value through the income statement	18		21	
– Financial assets mandatory at fair value through the income statement	1		1	
– Derivatives not involved in hedge accounting	213		309	
		232		331
Total interest revenue		**2,534**		**2,771**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
– Financial liabilities at amortised cost	1,038		1,258	
– Derivatives involved in hedge accounting	1,166		1,212	
– Negative interest expenses on financial assets	59		54	
		2,263		2,524
Other interest expenses				
– Financial liabilities designated at fair value through the income statement	15		15	
– Derivatives not involved in hedge accounting	25		29	
– Other	6		3	
		46		47
Total interest expenses		**2,309**		**2,571**
Total interest result		**225**		**200**

3 Result on financial transactions

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

	FIRST HALF OF 2020		FIRST HALF OF 2019	
Market value changes in financial assets at fair value through the income statement resulting from changes in credit and liquidity spreads, consisting of:				
– Interest-bearing securities	-23		31	
– Structured loans	-13		2	
		-36		33
Result on hedge accounting				
– Portfolio fair value hedge accounting	7		-3	
– Micro fair value hedge accounting	16		16	
– Micro cash flow hedge accounting	3		0	
		26		13
Change in counterparty credit risk of derivatives (CVA/DVA)		-7		-11
Realised sales and buy-out results		10		10
Other market value changes		-7		-24
Total		**-14**		**21**

The COVID-19 pandemic had a negative impact on the results on financial transactions due to higher credit and liquidity spreads of several interest-bearing securities and loans recorded under Financial assets at fair value through the income statement. Next to the on balance positive results on the sales from the liquidity portfolio of the bank, the realised sales results also includes the successful completion in February of a 'true sale and buyback' of a major inflation-linked bond purchased in 2007 and the restructuring of related derivatives. The purpose of these transactions was to reduce income statement volatility and ensures that, from February 2020, this bond is valued at the amortised cost and together with the related derivatives has been brought into hedge accounting. The completion of these transactions led to a realised result of EUR 3 million positive. Other market value changes include, among other things, unrealised market value changes of derivatives not involved in hedge accounting.

4 Impairments on financial assets and off-balance sheet commitments

Breakdown of financial assets and off-balance sheet commitments into impairment stages

The following tables provide a breakdown of the financial assets subject to impairment and off-balance sheet commitments into the 3 impairment stages:

Stage 1: performing exposures without significant increase in credit risk (SICR) since initial recognition.
Stage 2: performing exposures with significant increase in credit risk since initial recognition (not credit-impaired).
Stage 3: non-performing exposures (credit-impaired)

							30/6/2020
		GROSS CARRYING AMOUNT			ALLOWANCE FOR CREDIT LOSS		
	CARRYING AMOUNT	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
		STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Financial assets subject to impairment							
Cash and balances held with central banks	7,695	7,695	-	-	-	-	-
Amounts due from banks	59	59	-	-	0	-	-
Cash collateral posted	18,861	18,861	-	-	-	-	-
Financial assets at fair value through OCI[1]	10,213	10,153	60	-	0	–1	-
Interest-bearing securities at amortised cost	8,064	7,841	230	-	–1	–6	-
Loans and advances at amortised cost[2]	88,681	85,567	2,926	407	–9	–29	–181
Total	**133,573**	**130,176**	**3,216**	**407**	**–10**	**–36**	**–181**

1 The allowance for credit loss for financial assets at FVOCI is included in OCI and not in the (net) carrying amount.
2 Gross carrying amount. The allowance for credit loss is also based on the value adjustments from hedge accounting.

						30/6/2020
	NOMINAL AMOUNT			PROVISION		
	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Off-balance sheet commitments						
Contingent liabilities	1,646	1	-	-	-	-
Revocable facilities	3,896	214	1	-	-	-
Irrevocable facilities	5,430	151	25	–2	–3	-
Total	**10,972**	**366**	**26**	**–2**	**–3**	**-**

							30/6/2019
		GROSS CARRYING AMOUNT			ALLOWANCE FOR CREDIT LOSS		
	CARRYING AMOUNT	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
		STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Financial assets subject to impairment							
Cash and balances held with central banks	11,670	11,670	-	-	-	-	-
Amounts due from banks	76	76	-	-	-	-	-
Cash collateral posted	15,273	15,273	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,320	9,262	58	-	-	-1	-
Interest-bearing securities at amortised cost	7,271	7,196	80	-	-	-5	-
Loans and advances at amortised cost[2]	85,969	84,585	1,350	95	-4	-27	-30
Total	**129,579**	**128,062**	**1,488**	**95**	**-4**	**-33**	**-30**

1 The allowance for credit loss for financial assets at FVOCI is included in OCI and not in the (net) carrying amount.
2 Gross carrying amount. The allowance for credit loss is also based on the value adjustments from hedge accounting.

						30/6/2019
	NOMINAL AMOUNT			PROVISION		
	PERFORMING		NON-PERFORMING	PERFORMING		NON-PERFORMING
	STAGE 1	STAGE 2	STAGE 3	STAGE 1	STAGE 2	STAGE 3
Off-balance sheet commitments						
Contingent liabilities	1,590	1	-	-	-	-
Revocable facilities	4,000	36	-	-	-	-
Irrevocable facilities	6,822	93	15	-1	-1	-3
Total	**12,412**	**130**	**15**	**-1**	**-1**	**-3**

Non-performing exposures totalled EUR 433 million as at 30 June 2020 (year-end 2019: EUR 321 million). The share of non-performing exposures in the total portfolio is 0.3% (year-end 2019: 0.2%) and concerns 14 debtors (year-end 2019: 10 debtors). The increase in non-performing exposure is almost entirely caused by one debtor that has shifted form stage 2 to stage 3 on the basis of unlikeliness to pay. So far, the banks received all obligations of this debtor in full. BNG Bank has received government guarantees totalling EUR 43 million (year-end 2019: EUR 36 million) with respect to non-performing exposures. The following table shows the development of non-performing exposures.

	FIRST HALF OF 2020	2019
Opening balance	**321**	**57**
Increase in existing non-performing exposures	1	-
Shift from performing to non-performing exposure	130	301
Shift from non-performing to performing exposure	-	–22
Repayments on and settlement of non-performing exposure	–19	–15
Closing balance	**433**	**321**

Movements in allowances and provisions for expected credit losses

The following table shows the movemens in allowances for expected credit losses for financial assets and the provision for expected credit losses for off-balance sheet commitments.

	FIRST HALF OF 2020					
	OPENING BALANCE	INCREASES DUE TO ORIGINATION AND ACQUISITION	DECREASE DUE TO DERECOG-NITION REPAYMENTS AND DISPOSALS	CHANGES DUE TO CHANGE IN CREDIT RISK (NET)	DECREASE IN ALLOWANCE ACCOUNT DUE TO WRITE-OFFS	CLOSING BALANCE
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	0	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	6	1	0	0	-	7
Loans and advances at amortised cost	193	3	-3	26	-	219
	200	**4**	**-3**	**26**	**-**	**227**
Provision						
Off-balance sheet commitments	5	1	–4	3	-	5

	FIRST HALF OF 2019					
	OPENING BALANCE	INCREASES DUE TO ORIGINATION AND ACQUISITION	DECREASE DUE TO DERECOG-NITION REPAYMENTS AND DISPOSALS	CHANGES DUE TO CHANGE IN CREDIT RISK (NET)	DECREASE IN ALLOWANCE ACCOUNT DUE TO WRITE-OFFS	CLOSING BALANCE
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	-	0	0	-	0
Financial assets at fair value through OCI	1	0	0	0	-	1
Interest-bearing securities at amortised cost	7	0	–2	0	-	5
Loans and advances at amortised cost	47	2	–2	19	–5	61
	55	**2**	**-4**	**19**	**-5**	**67**
Provision						
Off-balance sheet commitments	2	1	–1	3	-	5

Modifications of contractual cash flows

There have been no financial assets for which the contractual cash flows have been modified during 1st half-year of 2020 while they had a loss allowance measured at an amount equal to lifetime expected credit loss (i.e. stage 2 or 3). No financial assets which were modified in previous reporting periods while they had a loss allowance measured at an amount equal to lifetime expected credit loss (stage 2 or 3) have been moved back to stage 1 during 1st half-year of 2020.

Key inputs and assumptions

The Expected Credit Loss (ECL) of a financial asset is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred. The total ECL is a discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

Probability of default

PDs are used as a key component in the determination of ECLs and SICR. BNG Bank has developed PD-models, largely based on expert judgements, for exposures for which no external rating is available. To ensure IFRS 9 compliance and so-called 'point-in-time' PDs, the bank developed overlay models that include forward-looking information (FLI). For staging purposes, credit ratings are used which are adjusted for forward-looking information. BNG Bank applies three internally developed scenarios based on economic forecasts which are consistent with inputs to other relevant estimates within the financial statements. The proposed macroeconomic forecasts are benchmarked with an external macroeconomic forecast to ensure the external validity of the scenarios. The scenarios are approved in the Asset and Liability Committee (ALCO). In doing so, BNG Bank ensures that the PDs are reasonable and supportable.

Loss given default

Because of its low default credit portfolio and the lack of historical internal LGD data, BNG Bank is not able to create LGD models. Therefore, BNG Bank applies a basic flat LGD approach, with four different LGD percentages for its entire exposure:
- 0% for exposures granted to or guaranteed by (Dutch) central or regional governments;
- 10% for government bonds issued by central or regional governments in the EU;
- 35% for exposure without a guarantee of a central or regional government and senior unsecured bonds; and
- 75% for subordinated loans.

Exposure at default

The EAD for loans and for interest-bearing securities (excluding securitisations) is based on contractual repayments owed by the obligor over a 12-month or lifetime period. Voluntary repayments or early redemptions are not taken into account, as these are historically infrequent. For securitisations, the future contractual repayments are based on estimated Constant Prepayment Rates which are derived from external sources. In case of committed (off-balance sheet) facilities, the maximum exposure is adjusted in order to reflect the expected drawdown behaviour for either a 12-month or lifetime period (in accordance with the impairment stage).

Significant increase in credit risk

BNG Bank applies the Point-in-Time PD, which is adjusted for forward-looking information, as an input parameter for the assessment of significant changes in credit risk since recognition. In addition, the bank uses forbearance measures as well as a 30-day past-due period as backstop criteria to determine a significant increase in credit risk. On the other hand, the bank also applies a low credit risk exemption for monitoring significant changes in credit risk since recognition. In this case, an impairment is measured using the 12-month ECL, without determining if a significant increase in credit risk has occurred. BNG Bank will consider financial assets with an investment grade rating to be of 'low credit risk'. For bonds, BNG Bank considers a BBB– or higher to be an investment grade. With regards to loans, the bank uses its internal counterparty credit rating to determine whether it is investment grade. Internal counterparty credit ratings are derived from a number of market sector specific internal rating models, which have been externally validated.

BNG Bank applies an expert judgement approach when determining the stage 3 impairment figures. The approach is performed on an instrument level by the Special Management department.

Forward-looking macroeconomic information

Historic analysis is performed to identify the key macroeconomic variables, which are provided on a quarterly basis. Expert judgement is applied. The macroeconomic factors applied in determining the probability of default for nonsecuritisations are the nominal Gross Domestic Product (GDP), the unemployment rate, and the wage rate. For securitisations the applied macroeconomic factors are the house price index, the long-term interest rate, and debt.

BNG Bank's base case assumes a slight recovery from the third quarter of 2020 following the strong economic downturn in the second quarter. Due to the great uncertainties about the consequences of the COVID-19 pandemic, the bank has decided to increase the chance of a downward scenario to 35%. The bank has not made so-called post-model adjustments to bring the results in line with economic expectations.

Non-securitisations		
Macro economic variable	**HORIZON AS AT 30/06/2020**	**HORIZON AS AT 31/12/2019**
Gross Domestic Product (GDP) for The Netherlands	3 years	3 years
Unemployment rate for The Netherlands	3 years	3 years
Wage growth rate	3 years	3 years
Scenario	**WEIGHTING AS AT 30/06/2020**	**WEIGHTING AS AT 31/12/2019**
Base scenario	60%	70%
Upward scenario	5%	10%
Downward scenario	35%	20%

Securitisations		
Macro economic variable	**HORIZON AS AT 30/06/2020**	**HORIZON AS AT 31/12/2019**
House price indices in the Euro area (17 countries)	3 years	3 years
Long-term interest rates in the Euro area (19 countries)	3 years	3 years
Debt (Credit to households and NPISHs) in the Euro area[1]	3 years	3 years
Scenario	**WEIGHTING AS AT 30/06/2020**	**WEIGHTING AS AT 31/12/2019**
Base scenario	60%	65%
Upward scenario	5%	10%
Downward scenario	35%	25%

1 Non-profit institutions serving households

Non-performing exposures

BNG Bank defines a financial instrument as in default, which is fully aligned with its definition of non-performing, when it meets one of the following criteria:

- BNG Bank considers that the obligor is unlikely to pay its credit obligations to the bank; and
- The obligor is past due 90 days or more on any material credit obligation to the bank.

The bank employs the following indicators for 'Unlikeliness to pay':

- The obligor's source of income is considered insufficient to meet its payment obligations;
- There are indications that future cash flows are under pressure;
- The obligor's debt ratio has increased significantly;
- One or more covenants have been breached;
- BNG Bank has called upon a guarantee or seized collateral;
- Significant delayed payments to other creditors (recorded in a register);
- There is a crisis in the obligor's market sector, in which the obligor is considered to be a weak party;
- The obligor can no longer be active in its market sector because of its financial difficulties;
- Another creditor has filed for the obligor's bankruptcy.

Sensitivity analysis of credit loss allowances

In order to measure the sensitivity of the credit loss allowances to identify changes in the input factors, a different scenario is used to (re)calculate the size of the credit loss allowances as at 30 June 2020.

In the scenario used (hereafter: scenario A), the credit rating of all individual exposures subject to impairment are downgraded by 1 notch (e.g. from AAA to AA+). These (lower) credit ratings, as well as the accompanying PDs, are then applied in the staging assessment and the calculation of the credit loss allowances. As a result, a portion of the exposures migrated from stage 1 to stage 2. The EADs and LGDs are unchanges compared with the actual impairment calculation.

The following table shows the sensitivity of the total credit loss allowances in scenario A:

		30/6/2020
	ACTUAL BALANCE	SCENARIO A (1 NOTCH DOWN)
Allowances		
Cash and balances held with central banks	-	-
Amounts due from banks	0	0
Financial assets at fair value through OCI	1	1
Interest-bearing securities at amortised cost	7	9
Loans and advances at amortised cost	219	249
	227	**259**
Provision		
Off-balance sheet commitments	5	10

		31/12/2019
	ACTUAL BALANCE	SCENARIO A (1 NOTCH DOWN)
Allowances		
Cash and balances held with central banks	-	-
Amounts due from banks	0	0
Financial assets at fair value through OCI	1	1
Interest-bearing securities at amortised cost	6	6
Loans and advances at amortised cost	193	214
	200	**221**
Provision		
Off-balance sheet commitments	5	8

This outcome of scenario A shows that the bank's result has become more sensitive to negative economic changes.

5 Breakdown of financial instruments by category

				30/6/2020
	AMORTISED COST	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME	TOTAL
Cash and balances held with central banks	7,695	-	-	7,695
Amounts due from banks	59	-	-	59
Cash collateral posted	18,861	-	-	18,861
Financial assets at fair value through the income statement	-	1,516	-	1,516
Derivatives	-	10,708	-	10,708
Financial assets at fair value through other comprehensive income	-	-	10,213	10,213
Interest-bearing securities at amortised cost	8,064	-	-	8,064
Loans and advances at amortised cost	88,681	-	-	88,681
Value adjustments on loans in portfolio hedge accounting	20,950	-	-	20,950
Total assets	**144,310**	**12,224**	**10,213**	**166,747**
Amounts due to banks	9,789	-	-	9,789
Cash collateral received	1,279	-	-	1,279
Financial liabilities at fair value through the income statement	-	692	-	692
Derivatives	-	26,724	-	26,724
Debt securities	117,472	-	-	117,472
Funds entrusted	5,890	-	-	5,890
Subordinated debt	33	-	-	33
Total liabilities	**134,463**	**27,416**	**-**	**161,879**

				31/12/2019
	AMORTISED COST	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME	TOTAL
Cash and balances held with central banks	1,272	-	-	1,272
Amounts due from banks	66	-	-	66
Cash collateral posted	14,643	-	-	14,643
Financial assets at fair value through the income statement	-	1,764	-	1,764
Derivatives	-	10,004	-	10,004
Financial assets at fair value through other comprehensive income	-	-	9,222	9,222
Interest-bearing securities at amortised cost	7,764	-	-	7,764
Loans and advances at amortised cost	88,279	-	-	88,279
Value adjustments on loans in portfolio hedge accounting	16,462	-	-	16,462
Total assets	**128,486**	**11,768**	**9,222**	**149,476**
Amounts due to banks	1,933	-	-	1,933
Cash collateral received	1,137	-	-	1,137
Financial liabilities at fair value through the income statement	-	674	-	674
Derivatives	-	22,651	-	22,651
Debt securities	112,661	-	-	112,661
Funds entrusted	5,575	-	-	5,575
Subordinated debt	33	-	-	33
Total liabilities	**121,339**	**23,325**	**-**	**144,664**

6 Fair value of financial instruments

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

Fair value hierarchy

- **Level 1:** valuation based on (unadjusted) quoted market prices of the instrument itself or, if unavailable, of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if

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

Where possible, BNG Bank uses quoted market prices (Level 1) for determing pricing- and funding curves. BNG Bank uses mid-market prices for valuation purposes. Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset.

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

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

In determining the fair value of derivative transactions, a credit value adjustment (CVA) and a debit valuation adjustment (DVA) are applied to all derivative transactions with all clients and financial counterparties with which the bank does not have an agreement for the daily exchange of collateral. CVA and DVA are also applied to all derivative transactions with clients or counterparties with which the bank has an agreement for the daily exchange of collateral but where significant thresholds are applicable in determining the collateral amount.

The bank applies a spread over the relevant swap curve to determine its own credit risk: the 'own credit adjustment (OCA)'. The OCA only relates to instruments included under Financial liabilities at fair value through the income statement. Insofar as financial instruments have the character of a forward contract, official forward prices are used, including forward yield curves and forward exchange rates. In the case of complex instruments, the constituent parts of the instrument are measured separately on the basis of the above techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts. BNG Bank applies only recurring fair values, which are measured on an ongoing basis for processing in the financial position at the end of each reporting period.

	30/6/2020		31/12/2019	
	BALANCE SHEET-VALUE	FAIR VALUE	BALANCE SHEET-VALUE	FAIR VALUE
Cash and balances held with central banks	7,695	7,695	1,272	1,272
Amounts due from banks	59	59	66	66
Cash collateral posted	18,861	18,861	14,643	14,643
Financial assets at fair value through the income statement	1,516	1,516	1,764	1,764
Derivatives	10,708	10,708	10,004	10,004
Financial assets at fair value through other comprehensive income	10,213	10,213	9,222	9,222
Interest-bearing securities at amortised cost	8,064	8,104	7,764	7,897
Loans and advances at amortised cost	88,681	109,492	88,279	106,012
Total financial assets	**145,797**	**166,648**	**133,014**	**150,880**
Amounts due to banks	9,789	9,680	1,933	1,928
Cash collateral received	1,279	1,279	1,137	1,137
Financial liabilities at fair value through the income statement	691	691	674	674
Derivatives	26,724	26,724	22,651	22,651
Debt securities	117,472	117,782	112,661	113,466
Funds entrusted	5,890	6,062	5,575	5,759
Subordinated debt	33	45	33	45
Total financial liabilities	**161,878**	**162,263**	**144,664**	**145,660**

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

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

				30/6/2020
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	105	1,215	196	1,516
Derivatives	-	10,706	2	10,708
Financial assets at fair value through other comprehensive income	10,072	141	-	10,213
Total financial assets	**10,177**	**12,062**	**198**	**22,437**
Financial liabilities at fair value through the income statement	-	691	-	691
Derivatives	-	26,723	1	26,724
Total financial liabilities	**-**	**27,414**	**1**	**27,415**

				31/12/2019
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	102	1,221	441	1,764
Derivatives	-	9,999	5	10,004
Financial assets at fair value through other comprehensive income	9,141	81	-	9,222
Total financial assets	**9,243**	**11,301**	**446**	**20,990**
Financial liabilities at fair value through the income statement	113	561	-	674
Derivatives	-	22,647	4	22,651
Total financial liabilities	**113**	**23,208**	**4**	**23,325**

Significant movements in fair value Level 3 items

	FIRST HALF OF 2020					
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		DERIVATIVES (STATED AS LIABILITIES)
Opening balance		**441**		**5**		**4**
Results through the income statement:						
– Interest result	3		2		2	
– Unrealised result on financial transactions	–3		–4		–4	
– Realised result on financial transactions	–3		-		-	
		–3		–2		–2
– Investments / Disposals		–239		-		-
– Cash flows		–3		–1		–1
Closing balance		**196**		**2**		**1**

	FIRST HALF OF 2019					
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		DERIVATIVES (STATED AS LIABILITIES)
Opening balance		**370**		**8**		**8**
Results through the income statement:						
– Interest result	5		3		3	
– Unrealised result on financial transactions	44		–2		–2	
– Realised result on financial transactions	-		-		-	
		49		1		1
– Investments / Disposals		-		-		-
– Cash flows		–5		–2		–2
Closing balance		**414**		**7**		**7**

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

Due to the successful completion in February of a 'true sale and buyback' of a major inflation-linked bond purchased in 2007, this bond is now valued at the amortised cost. This caused the decline of the level 3 exposure at fair value in the first half of 2020.

Input variables which are not publicly observable in the market

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

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

These input variables remained unchanged compared to 2019.

Sensitivity of the fair value of Level 3 assets and liabilities to a movement in significant input factors

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

	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		DERIVATIVES (STATED AS LIABILITIES)		TOTAL	
	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019	30/6/2020	31/12/2019
Balance sheet value	196	441	2	5	–1	–4	197	442
Interest rate								
+ 10 basis points	–2	–10	0	–1	0	0	–2	–11
- 10 basis points	2	10	0	1	0	0	2	11
+ 100 basis points	–21	–84	0	–25	0	3	–21	–106
- 100 basis points	24	115	0	8	0	–1	24	122
Inflation rate								
+ 10 basis points	2	10	-	-	-	-	2	10
- 10 basis points	–2	–9	-	-	-	-	–2	–9
+ 100 basis points	21	110	-	-	-	-	21	110
- 100 basis points	–19	–82	-	-	-	-	–19	–82
Credit and liquidity risk spreads								
+ 10 basis points	–2	–10	0	0	0	0	–2	–10
- 10 basis points	2	10	0	0	0	0	2	10
+ 100 basis points	–21	–85	0	20	0	5	–21	–60
- 100 basis points	24	116	0	–1	0	–7	24	108
Total significant input factors								
+ 10 basis points	–2	–10	0	–1	0	1	–2	–10
- 10 basis points	3	10	0	1	0	–1	3	10
+ 100 basis points	–23	–87	0	–6	0	5	–23	–88
- 100 basis points	27	121	0	7	0	–7	27	121

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

The major part of the level 3 instruments in the Financial assets at fair value through the income statement balance sheet item (EUR 196 million) consists of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. The default risk of the transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees were set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 28 million at mid-year 2020 (year-end 2019: EUR 46 million negative).

The sensitivity of these instruments in the Financial assets at fair value through the income statement item increased in 2020. The credit spread of these assets is the main unobservable parameter. A movement of the credit spread by +100 basis points has an impact of EUR 21 million negative.

The Derivatives (stated as liabilities) item features a Level 3 separated option linked to the French government interest rate. This option is hedged with a Level 3 swap including an option recognised under the Derivatives (stated as assets) item. These derivatives matured in July 2020.

Fair value hierarchy of amortised cost transactions

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

				30/6/2020
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	7,695	-	-	7,695
Amounts due from banks	7	46	6	59
Cash collateral posted	-	18,861	-	18,861
Interest-bearing securities at amortised cost	238	7,392	474	8,104
Loans and advances at amortised cost	836	100,274	8,382	109,492
Total financial assets	**8,776**	**126,573**	**8,862**	**144,211**
Amounts due to banks	1	9,679	-	9,680
Cash collateral received	-	1,279	-	1,279
Debt securities	91,453	25,169	1,160	117,782
Funds entrusted	3,045	1,923	1,094	6,062
Subordinated debt	-	-	45	45
Total financial liabilities	**94,499**	**38,050**	**2,299**	**134,848**

				31/12/2019
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	1,272	-	-	1,272
Amounts due from banks	4	55	7	66
Cash collateral posted	-	14,643	-	14,643
Interest-bearing securities at amortised cost	203	7,404	290	7,897
Loans and advances at amortised cost	1,079	96,625	8,308	106,012
Total financial assets	**2,558**	**118,727**	**8,605**	**129,890**
Amounts due to banks	-	1,928	-	1,928
Cash collateral received	-	1,137	-	1,137
Debt securities	89,385	22,922	1,159	113,466
Funds entrusted	2,433	-	3,326	5,759
Subordinated debt	-	-	45	45
Total financial liabilities	**91,818**	**25,987**	**4,530**	**122,335**

The financial assets at amortised cost under Level 3 mainly relate to loans and advances subject to capital requirements to BNG Bank's statutory clients. Loans and advances to statutory counterparties under government guarantees are included in Level 2, because of the strong correlation with bonds issued by the Dutch State. The financial liabilities at amortised cost under Level 1 relate to negotiable benchmark bonds issued by BNG Bank (Debt securities item). Private loans are classified under Level 3 (Debt securities and Funds entrusted items).

7 Credit risk

Forborne exposures

Forbearance concerns credit agreements for which the credit conditions have been amended in the debtor's favour because of the debtor's precarious financial position, so as to enable it to fulfil its obligations. Exposures for which a payment holiday is given under a moratorium are not marked as forborne.

				30/6/2020
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. derivatives)				
Cash and balances held with central banks	7,695	-	-	0.0%
Amounts due from banks	59	-	-	0.0%
Cash collateral posted	18,861	-	-	0.0%
Financial assets at fair value through the income statement	1,516	-	-	0.0%
Financial assets at fair value through other comprehensive income	10,213	-	-	0.0%
Interest-bearing securities at amortised cost	8,064	-	-	0.0%
Loans and advances at amortised cost	88,681	339	309	0.3%
	135,089	**339**	**309**	**0.2%**
Off-balance sheet commitments				
Contingent liabilities	1,647	-	-	0.0%
Revocable facilities	4,111	7	7	0.2%
Irrevocable facilities	5,606	2	2	0.0%
	11,364	**9**	**9**	**0.1%**

				31/12/2019
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
Financial assets (excl. derivatives)				
Cash and balances held with central banks	1,272	-	-	0.0%
Amounts due from banks	66	-	-	0.0%
Cash collateral posted	14,643	-	-	0.0%
Financial assets at fair value through the income statement	1,764	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,222	-	-	0.0%
Interest-bearing securities at amortised cost	7,764	-	-	0.0%
Loans and advances at amortised cost	88,279	346	320	0.4%
	123,010	**346**	**320**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	1,613	-	-	0.0%
Revocable facilities	3,764	5	5	0.1%
Irrevocable facilities	7,151	10	10	0.1%
	12,528	**15**	**15**	**0.1%**

The credit agreements for which the contractual terms have changed as a result of the debtor's unfavourable financial position amounted to EUR 348 million (gross of impairment) at 30 June 2020 (31 December 2019: EUR 361 million). The total forborne exposure concerns 12 debtors (year-end 2019: 9 debtors). No new forbearance measures were taken by the bank in the first half of 2020.

Non-performing

Please refer to Note 4 (Impairment on financial assets and off-balance sheet commitments) for disclosure of BNG Bank's definition of non-performing exposures. An exposure classified as non-performing can once again be regarded as performing if all of the following conditions are met:

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

Maturity analysis of performing past due exposures

The figures comprise of past due exposures that are not included in impairment stage 3 under IFRS 9. Exposures for which a payment holiday is given under a moratorium are not marked as past due.

	30/6/2020	31/12/2019
Less than 31 days	-	2
31 through 60 days	-	-
61 through 90 days	-	-
Over 90 days	-	-
Closing balance	**-**	**2**

Moratoria

Due to the COVID-19 pandemic banks within The Netherlands joined forces to support customers by issuing payment holidays. So far, BNG Bank joines a moratorium for clients with business lending products with an exposure below EUR 2,5 million. The following table gives an overview of the exposures related to this moratorium as at 30 June 2020. Exposures for which a payment holiday is given are not marked as forborne and all are performing. In The Netherlands a Public Guarantee Scheme or legislative moratoria are not applicable. The maturity date of this moratorium has not yet expired.

Amounts in thousands of EURO				30/6/2020
	GROSS CARRYING AMOUNT			
		Performing		
			Of which: exposures with forbearance measures	Of which: Instruments with SICR since initial recognition but not credit-impaired (Stage 2)
Loans and advances subject to moratorium	7,368	7,368	-	7,368
of which: Households	5,646	5,646	-	5,646
of which: Collateralised by residential immovable property	-	-	-	-
of which: Non-financial corporations	-	-	-	-
of which: Small and Medium-sized Enterprises	-	-	-	-
of which: Collateralised by commercial immovable property	-	-	-	-

Loans and advances subject to the moratorium are not impaired and there are no negative changes in fair value due to credit risk.

Amounts in thousands of EURO							30/6/2020
	NUMBER OF OBLIGORS	GROSS CARRYING AMOUNT					
			Residual maturity of moratoria				
			<= 3 months	> 3 <= 6 months	> 6 <= 9 months	> 9 <= 12 months	> 1 year
Loans and advances for which moratorium was offered	42	14,735					
Loans and advances subject to moratorium (granted)	21	7,368	98	63	206	360	6,640
– of which: Households		5,646	66	47	190	344	4,999
– of which: Collateralised by residential immovable property		-	-	-	-	-	-
– of which: Non-financial corporations		-	-	-	-	-	-
– of which: Small and Medium-sized Enterprises		-	-	-	-	-	-
– of which: Collateralised by commercial immovable property		-	-	-	-	-	-

Netting of financial assets and financial liabilities (derivatives)

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

			30/6/2020
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
Netting of financial assets and financial liabilities (derivatives)			
Gross value of financial assets and liabilities before balance sheet netting	14,502	-30,517	**-16,015**
Gross value of the financial assets and liabilities to be netted	-3,793	3,793	**0**
Balance sheet value of financial assets and liabilities (after netting)	**10,709**	**-26,724**	**-16,015**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	-8,002	8,002	0
Exposure before collateral	**2,707**	**-18,722**	**-16,015**
Value of financial collateral that does not comply with IAS 32 for netting purposes	-1,279	18,861	**17,582**
Net exposure	**1,428**	**139**	**1,567**

			31/12/2019
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
Netting of financial assets and financial liabilities (derivatives)			
Gross value of financial assets and liabilities before balance sheet netting	12,184	-24,831	**-12,647**
Gross value of the financial assets and liabilities to be netted	-2,180	2,180	**0**
Balance sheet value of financial assets and liabilities (after netting)	**10,004**	**-22,651**	**-12,647**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	-7,802	7,802	**0**
Exposure before collateral	**2,202**	**-14,849**	**-12,647**
Value of financial collateral that does not comply with IAS 32 for netting purposes	-1,137	14,632	**13,495**
Net exposure	**1,065**	**-217**	**848**

At 30 June 2020, the collateral posted for derivatives amounted to EUR 18.9 billion (2019: EUR 14.9 billion). A three-notch downgrade of BNG Bank's credit rating would not impact this amount (2019: EUR 34 million increase). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, collateral obligations.

Investments in interest-bearing securities (IBS)

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

The amounts shown below per rating category are remaining principal amounts in millions of euros. The total balance sheet value (gross of impairment) is also shown in the final column. The total value of EUR 19,113 million is recognised in the balance sheet items Financial assets at fair value through other comprehensive income (EUR 10,213 million), Interest-bearing securities at amortised cost (EUR 8,064 million) and Financial assets at fair value through the income statement (EUR 836 million).

							30/6/2020
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Liquidity portfolio							
Level I – Government/ Supranational	5,914	2,668	220	-	46	8,848	9,994
Level I B – Covered bonds	1,499	-	5	-	-	1,504	1,560
Level II A – Government/ Supranational	-	55	-	-	-	55	105
Level II B – Corporates	-	-	25	-	-	25	26
Level II B – RMBS	546	-	-	-	-	546	550
	7,959	**2,723**	**250**	**0**	**46**	**10,978**	**12,235**
ALM portfolio							
RMBS	226	269	118	-	22	635	633
ABS	-	55	106	25	54	240	236
RMBS-NHG	3,452	83	151	-	-	3,686	3,691
Other	343	356	456	252	73	1,480	2,318
	4,021	**763**	**831**	**277**	**149**	**6,041**	**6,878**
Total	**11,980**	**3,486**	**1,081**	**277**	**195**	**17,019**	**19,113**

							31/12/2019
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Liquidity portfolio							
Level I – Government/ Supranational	5,351	2,204	220	135	46	7,956	9,125
Level I B – Covered bonds	1,370	-	-	-	-	1,370	1,428
Level II A – Government/ Supranational	-	59	-	-	-	59	102
Level II B – Corporates	-	-	25	-	-	25	25
Level II B – RMBS	1,061	-	-	-	-	1,061	1,068
	7,782	**2,263**	**245**	**135**	**46**	**10,471**	**11,748**
ALM portfolio							
RMBS	20	295	127	-	23	465	463
ABS	-	58	117	28	55	258	254
RMBS-NHG	3,008	89	159	-	-	3,256	3,260
Other	473	380	442	260	75	1,630	2,333
	3,501	**822**	**845**	**288**	**153**	**5,609**	**6,310**
Total	**11,283**	**3,085**	**1,090**	**423**	**199**	**16,080**	**18,058**

Long-term foreign exposure

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

							30/6/2020
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational institutions	141	149	-	-	-	290	298
Multilateral development banks	339	-	-	-	-	339	371
Austria	-	896	-	-	-	896	964
Belgium	-	276	-	132	-	408	578
Denmark	90	-	-	-	-	90	91
Finland	-	486	-	-	-	486	540
France	548	801	100	5	-	1,454	1,757
Germany	1,754	130	45	-	-	1,929	2,189
Italy	-	15	18	-	57	90	86
Luxembourg	144	-	-	-	-	144	146
Portugal	-	-	51	50	100	201	205
Spain	63	254	303	-	68	688	787
Switzerland	-	-	86	-	-	86	96
United Kingdom	652	355	279	249	50	1,585	2,408
United States	22	-	-	-	-	22	24
Total	**3,753**	**3,362**	**882**	**436**	**275**	**8,708**	**10,540**

							31/12/2019
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
Supranational institutions	269	204	-	-	-	473	493
Multilateral development banks	405	-	-	-	-	405	434
Austria	-	471	-	-	-	471	521
Belgium	-	281	-	136	-	417	595
Denmark	90		-	-	-	90	91
Finland	-	486	-	-	-	486	543
France	496	806	100	5	-	1,407	1,678
Germany	1,453	30	54	-	-	1,537	1,815
Italy	-	19	18	135	60	232	234
Portugal	-	-	54	50	100	204	209
Spain	65	276	319	-	69	729	830
Switzerland	-	-	90	-	-	90	102
United Kingdom	609	380	301	261	54	1,605	2,291
United States	22	-	-	-	-	22	23
Total	**3,409**	**2,953**	**936**	**587**	**283**	**8,168**	**9,859**

The non-investment grade items (i.e. items with a rating below BBB–) in Italy and Spain concerns interest-bearing securities, including RMBS transactions. The non-investment grade exposure in Portugal and the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures amounted to EUR 291 million (year-end 2019: EUR 291 million).

Off-balance sheet commitments

Contingent liabilities

This includes all commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. These so called Letters of Credit are covered by deposits or a counter guarantee from public authorities. BNG Bank records contingent liabilities at the underlying principal amount that would need to be paid in the event of the borrower defaulting.

	30/6/2020	31/12/2019
Contingent liabilities	1,647	1,613

Revocable facilities

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

	30/6/2020	31/12/2019
Revocable facilities	4,111	3,764

Irrevocable facilities

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

	30/6/2020	31/12/2019
Outline agreements concerning the undrawn part of credit facilities	3,824	5,230
Contracted loans and advances to be distributed in the future	1,782	1,921
Total	**5,606**	**7,151**

Events after the balance sheet date

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

The Hague, 4 September 2020

Executive Board
Ms G.J. Salden, **Chair**
O.J. Labe
J.C. Reichardt

Supervisory Board
Ms M. Sint, **Chair**
J.C.M. van Rutte, **Vice-chair**
C.J. Beuving
H. Arendse
J.B.S. Conijn
Ms M.E.R. van Elst
Ms J. Kriens

Review report

To: the supervisory board and the executive board of BNG Bank N.V.

Introduction

We have reviewed the accompanying consolidated interim financial information for the six-month period ended 30 June 2020 of BNG Bank N.V., Den Haag, which comprises the consolidated balance sheet as at 30 June 2020, 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 then ended, and the selected explanatory notes. The executive board is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information for the 6-month period ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 4 September 2020

PricewaterhouseCoopers Accountants N.V.
Original has been signed by
J.M. de Jonge RA

Colophon

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