BNG BANK ANNUAL REPORT

2021

BANK

Driven by social impact

PDF/printed version
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ANNUAL REPORT
BNG BANK 2021

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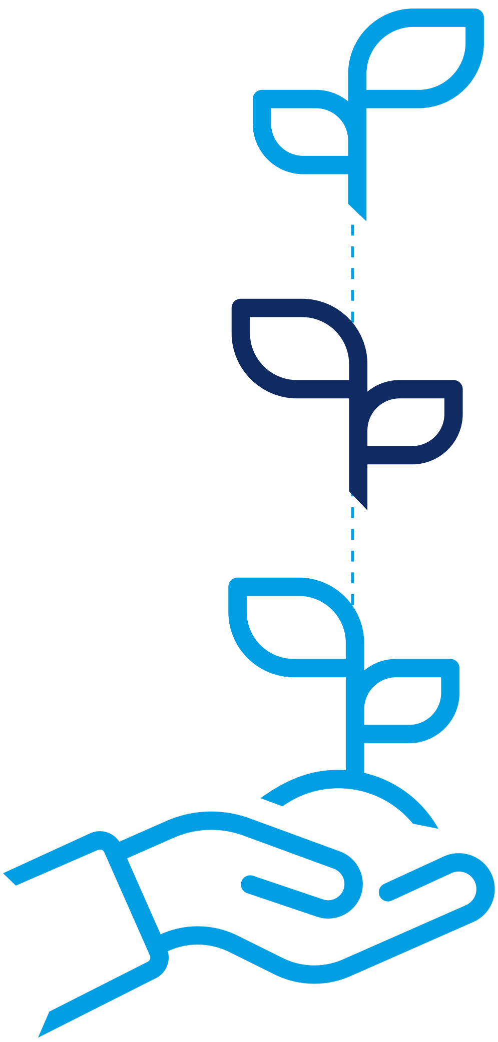
DRIVEN BY SOCIAL IMPACT



FOREWORD

2021 proved to be a challenging year, not only due to the effects of the COVID-19 pandemic on our society, on the way we work and go about our daily lives, but more importantly because of the major challenges our clients faced. This includes municipalities that want to invest in sustainable and liveable cities, but are confronted with insufficient financial prospects due to deficits in the social sector. Housing associations that are working to increase the number of subsidised rental properties and make them more sustainable, but require more financial leeway to do so. And the healthcare sector, which wants to shift its focus to providing more effective treatment and preventative care. All are clients in the public domain that are driven by social impact.

In 2021, we once again proved that we are a reliable and sustainable partner for our clients. We helped them think through their specific challenges and satisfied more than half of the public domain's demand for credit with our favourable loans. In doing so, we reinforced our position as a market leader. We are proud of this fact, and aim for continued improvement so that we can create even more impact together with our clients. We achieve this by increasingly orientating ourselves according to the social issues and transformations that our clients face. By offering our expertise and sharing our experiences. And by leveraging our unique position as the connecting factor between various players in the public domain. We are driven by a common goal: creating social impact. This is the essence of our updated strategy: **Our Road to Impact**.

We have carried out a preliminary assessment of the social impact that our clients create. This is because we believe it is important to guide and report on what really matters. We have published this assessment on our website and from 2022 onwards we plan to report annually on our clients' progress on the assessed indicators. In this assessment, we also report specifically on the reduction of CO_2 emissions associated with our loan portfolio. According to the measurement we performed in this past reporting year on the loan portfolio as per 31 December 2020, these levels decreased. This is largely thanks to our clients, and in this reporting period, it was especially owing to the housing associations whose total energy consumption across their properties decreased.

Financial results

Both low interest rates and a procedural error affected our net interest income. The net interest income amounted to EUR 407 million in 2021, a decrease of EUR 70 million compared to 2020. EUR 57 million of the decrease is attributable to the fact that, due to a procedural error, BNG Bank did not meet a reporting requirement in time to qualify for the 0.5% conditional bonus rate on the first period of the Targeted Longer-Term Refinancing Operation (TLTRO). This was a major disappointment. We acknowledge and regret this error, and, in response, we have taken steps to prevent another from happening again in the future. Through ongoing conversations with the Dutch Central Bank, we are making every effort to reach a commensurate solution, one which both acknowledges and respects the purpose of the TLTRO as well as the fact that BNG Bank materially satisfies the conditions for allocation. Even without taking into account the missed conditional bonus rate, the net interest income was lower than last year's due to low interest rates, which had a negative effect on the net interest income resulting from equity invested. On a structural basis, however, we consider our net interest income to be healthy, and we are satisfied with our net profit. For the reporting year 2021, BNG Bank realised a net profit of EUR 236 million, a 7% increase compared to 2020 (EUR 221 million). A major reason for this is the positive result on financial transactions totalling EUR 100 million, compared to a negative result of EUR 17 million in 2020.

The volume of newly issued long-term loans amounted to EUR 12.8 billion, an increase of more than 9% compared to 2020. The total long-term loan portfolio totalled EUR 87 billion at the end of 2021. This represents a net increase in the portfolio of EUR 1.2 billion.

BNG Bank is a robustly capitalised bank. At year-end 2021, the Common Equity Tier 1 ratio and Tier 1 ratio were 32% and 38%, respectively. Rating agencies Fitch, Moody's and S&P all assign BNG Bank their highest respective ratings. This means that BNG Bank is among the safest banks in the world. Based on this fact, throughout the year we were able to attract funding in various currencies and at attractive rates, for both the short and long term.

Although the TLTRO conditional bonus rate for the first period of 2021 was not granted, BNG Bank believes this should have no bearing on dividend payments to shareholders. We therefore propose an increase in the 2021 dividend pay-out percentage from 50 to 60%, bringing the total dividend payment to EUR 127 million.

Outlook 2022

In a short window of time, the year 2022 has become marked by war in Ukraine. We extend our deepest sympathies to all those affected. We are committed to doing what is possible in our current position, and we continue to support all our clients in the public domain – including those impacted by the economic and social consequences of the conflict.

We remain focused on social impact. Our target is a 10% increase in our clients' impact in 2023, compared to our baseline measurement for 2021. We realise that this is an ambitious goal. But we feel we need to establish clear milestones and we are committed to doing everything we can to meet our goal. We continue to invest in improving our processes, and in the development of our people. Our total number of employees is growing, especially with a view to optimising our client and credit processes, and to fulfilling our role as a gatekeeper. We consider it essential to qualify activities unambiguously (EU Taxonomy), and we will invest in order to satisfy this requirement and also to take advantage of resulting opportunities.

The total amount of our net income is uncertain because the bank cannot anticipate changes to the total amount of the loan loss provision, or the impact of changes to market value. The bank is therefore unable to make a reliable estimate of net income for 2022.

In closing

In 2021, we took major steps towards realising 'Our Road to Impact'. We appreciate the fortitude of our highly motivated employees, who intentionally choose to work for a bank committed to social impact. We extend our gratitude to them, for their ongoing accomplishments and resilience over the past year. We also would like to express our thanks to our clients, shareholders, Supervisory Board members and other stakeholders for their valuable contributions to our overall performance. We would like to especially thank Marjanne Sint and Jantine Kriens, who stepped down as chair and member (respectively) of BNG Bank's Supervisory Board this past year. BNG Bank's Executive Committee greatly values their long-term and important contributions to the development of BNG Bank.

Gita Salden
CEO BNG Bank

2021 KEY FIGURES

Market leader in the public domain

Volume of lending

€ 12.8 billion

Balance sheet total

€ 149.1 billion

Interest result

€ 407 million

Long-term loan portfolio

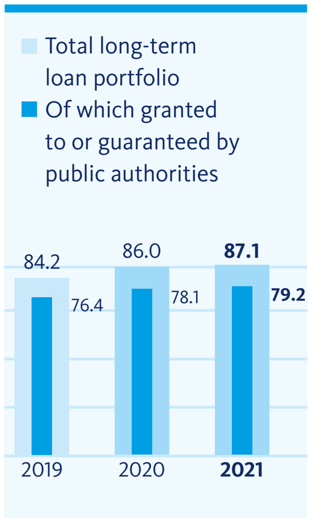
€ 87.1 billion

Net profit

€ 236 million

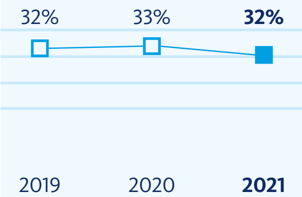
Proposed dividend

€ 127 million



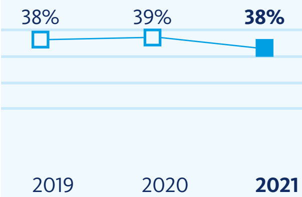
Common Equity Tier 1 ratio

32%



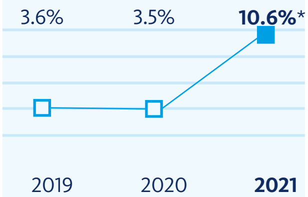
Tier 1 ratio

38%



Leverage ratio

10.6%



*Increase as a result of the new Capital Requirements Directive

1 DRIVEN BY SOCIAL IMPACT

1.1 Our Road to Impact

In 2021, BNG Bank took important steps towards implementing its updated strategy: 'Our Road to Impact'. In addition to focusing on the public domain and on client partnerships, BNG Bank took action to make the social impact of clients measurable and to optimise its business operations.

Driven by social impact

'Our Road to Impact' reflects BNG Bank's decision to return to its essence: the public domain and the public interest. BNG Bank's purpose is: Driven by social impact. This purpose drives everything BNG Bank does. The bank engages with its clients about this purpose and helps them to achieve their social objectives. The aim is to ensure that clients see BNG Bank as the go-to partner for achieving their social goals, and that the bank is successful in achieving and demonstrating this.

BNG Bank wants to help demonstrably to make social impact. To actively enhance its social impact, BNG Bank began to measure the impact of its clients in 2021. The bank uses the Sustainable Development Goals (SDGs) as a point of reference, and is specifically focusing on the following five SDGs, which correspond closely to the activities that BNG Bank finances:

- SDG 3: Good health and well-being;
- SDG 4: Quality education;
- SDG 7: Affordable and clean energy;
- SDG 11: Sustainable cities and communities;
- SDG 13: Climate action.

The first baseline measurement on concrete indicators linked to the five SDGs has been published on the website. Starting in 2022, the bank will chart the progress made by its clients on these SDGs, with the ultimate aim of increasing impact in 2023 by 10% compared with the baseline measurement. In 2022, an 'engagement plan' will be introduced to steer the activities of the bank's clients and support them in their efforts to act on the SDGs. Moreover, BNG Bank is determined to manage the reduction of carbon emissions in its loan portfolio in line with the financial sector's climate commitment (-49% by 2030).

Sustainable, reliable and professional

BNG Bank is driven by three core values:
- **Sustainable** indicates that BNG Bank's actions aim to make a positive impact, both now and in the long term. The bank is aware of developments in society and consequently focuses on solutions and building strong relationships with clients.
- **Reliable** is reflected in the transparency of the bank's actions and communication. BNG Bank is clear and honest about what it can do and honours its agreements.
- **Professional** defines how BNG Bank works, how the bank develops itself, and how it conducts itself when it engages with other parties in a professional context. BNG Bank runs an effective operation and is continuously developing. The banks shows respect for others, listens carefully, speaks out about issues and learns from mistakes.

Serving the public domain

BNG Bank has chosen to stay true to its origins and serve the public domain in the Netherlands. The public domain includes:
- the Dutch central government, provinces, municipalities and water boards;
- organisations that carry out a public service, such as housing associations, healthcare and educational institutions; and
- organisations that have half or more of their share capital provided by the government and/or activities that are fully guaranteed by the government.

In addition to organisations in the public domain, BNG Bank also finances projects in the energy, environment, mobility and networks sectors, provided they can be considered part of the public domain.

To sharpen its focus, BNG Bank makes choices based not only in relation to the clients it serves but also to the services it provides. In 2021, BNG Bank opted to phase out the activities of the agency desk, which acted as a lending and/or collateral agent.

In 2021, the importance of payment services for BNG Bank's clients was reaffirmed. An analysis revealed that municipalities, provinces and inter-municipal cooperations all view payment solutions to be a natural part of the bank's services. In the coming period, BNG Bank will focus on further developing payment services to create impact with our clients.

Building client partnerships

BNG Bank is committed to building client partnerships. The bank is a natural partner that actively contributes to solving social issues. It engages with its clients to discuss their current and future needs, and adapts its services accordingly.

Enhancing the bank's relationship with clients based on a commitment to build strong client partnerships and an effective internal organisation will determine BNG Bank's course for the coming years. BNG Bank believes that it can achieve its ambitions by making conscious choices.

Optimal business operations

To provide the public domain with the best possible services, BNG Bank needs an optimal internal organisation. In 2021, the bank took important steps in that regard. It introduced a new executive structure with an Executive Committee (ExCo) of five members. In addition to the existing roles of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO), the ExCo now also consists of a Chief Commercial Officer (CCO) and a Chief Operational Officer (COO), who manage client-related commercial activities and information technology and operational activities respectively. The bank is also looking more broadly at the organisational structure. In the context of strategic staff planning, for example, BNG Bank has mapped out its current and future staffing requirements. In addition, in 2021 the bank devoted a great deal of attention to improving the client and credit processes, including the further development of its gatekeeper function and the review process. The emphasis on the internal organisation had the effect that BNG Bank was not able to make the planned steps in increasing customer-friendliness of our services in 2021.

SDG 11 SUSTAINABLE CITIES AND COMMUNITIES:

- As a partner of social housing associations, BNG Bank contributes to better and liveable communities.
- As a partner of municipalities, BNG Bank contributes to affordable and better public provisions.

SDG 3 GOOD HEALTH AND WELL-BEING:

- BNG Bank contributes to affordable health care for everyone.
- BNG Bank is a partner in improving sustainability of hospitals and other health care facilities.

SDG 4 QUALITY EDUCATION:

- BNG Bank contributes to affordable and high quality school buildings.
- BNG Bank is a partner in improving sustainability of schools and other educational buildings.

SDG 7 AFFORDABLE AND CLEAN ENERGY:

- BNG Bank contributes to a larger share of renewable energy in the energy mix.
- BNG Bank contributes to energy savings and more energy efficiency.

SDG 13 CLIMATE ACTION:

- BNG Bank contributes to the reduction of greenhouse gases.

CO_2 emissions associated with the loan portfolio

The climate commitment signed by BNG Bank and nearly the entire Dutch financial sector will help reduce CO_2 emissions. One of the elements of the 'Financial sector's commitment' is to make the impact of lending and investments on the climate measurable. To this end, BNG Bank has joined the Partnership for Carbon Accounting Financials (PCAF). According to the PCAF methodology, clients' direct and indirect emissions are attributed to the bank based on a set of comprehensive valuation rules. The PCAF methodology is used by most Dutch banks and several foreign ones. BNG Bank reported on these CO_2 emissions for the first time in its 2019 Annual Report, covering the year 2018. Due to the availability of data, reporting always occurs for the year preceding the bank's current reporting year. In 2022, BNG Bank will present an action plan for reducing the CO_2 emissions associated with its loan portfolio.

This annual report discusses the CO_2 emissions associated with the 2020 loan portfolio, calculated on the basis of the status as at 31 December 2020. The calculation of emissions compared to previous measurements has been refined in several ways. As a result, previous emissions calculations have been recalculated. This has led to an upward adjustment of the CO_2 emissions associated with the 2019 loan portfolio from 39.9 to 40.5 tonnes per million EUR. The total emissions for that year now amount to 3,039 kTon (previously: 2,985 kTon).

The CO_2 emissions associated with BNG Bank's loan portfolio decreased in 2020. Total emission in absolute terms was lower than in 2019, while the amount involved in the measurements grew. Emissions decreased per million euros by more than 6%, from 40.5 tonnes to 38.0 tonnes per million euros. In addition to the measures introduced by clients to enhance sustainability, external factors also play a role. The winter of 2020 was very mild, for example, and the measures taken to curtail the COVID-19 pandemic will also have played a role. These measures reduced commuting and energy consumption in offices, though this could be offset by higher private energy consumption as a result of working from home. Housing associations made a significant contribution to the reduction by cutting emissions from natural gas and electricity consumption of their assets. The ongoing effort to make their assets more sustainable will play a role in this. The reduction in the healthcare sector is mainly due to lower emissions from commuting. As for the drinking water sector, it was possible for the first time to use data from the companies, which means a more accurate calculation of the footprint can be made. Scope 3 emissions have also been calculated for this sector for the first time. As a result of changes in the methodology, it is not possible to compare the figures for this sector with those of previous years.

For the first time, the 2020 measurement addressed the bank's ability to offset emissions by financing wind farms. In total, the wind farms offset 91 kTon of emissions. This measurement involved a portfolio of EUR 140 million of wind farms (79% of BNG Bank's total exposure to wind farms).

A description of the methodology and the sources used for the calculation is included in the Reporting principles section, with terminology explained in the Glossary. This section includes an overview of the CO_2 emissions of the various client sectors for 2018, 2019 and 2020. A detailed report of the CO_2 emissions associated with the loan portfolio has been published on the website.

CO_2 emissions associated with loan portfolio

	Public Sector	Social Housing	Healthcare Institutes	Education	Water Authorities	Mobility	Other
Emissions (in tonnes/million EUR)	59.4	21.8	53.9	53.9	33.1	19.2	4.2
Part included in measurement BNG Bank portfolio as of 31-12-20 (= EUR 500 million)							
Total **76,868** million EUR	27,909	41,126	5,320	656	571	1,223	63
Total **2,920** kTon Emissions attributed to credit loans by BNG Bank (kTon)	1,658	898	287	35	19	23	0
% change in CO_2 emissions measured in tonnes/million EUR compared to 2019	-2.1%	-13.1%	-8.8%	+1.1%	-	-3.0%	-
Development of CO_2 emissions of selected client sectors ('18 / '19 / '20)	62.9 / 60.7 / 59.4	28.2 / 25.1 / 21.8	58.3 / 59.1 / 53.9	54.0 / 53.3 / 53.9			
Data quality 5 = precise, 1 = approximate	★★★☆☆	★★★★☆	★★★☆☆	★★★★☆	★★★★☆	★★☆☆☆	★★☆☆☆
% portfolio included in calculation	100%	98%	75%	65%	83%	88%	2%

Development of CO_2 emissions total loan portfolio BNG Bank
(in tonnes/million EUR)

2018	2019	2020
42.8	40.5	38.0

1.2 Economic recovery

The economy in the Netherlands recovered more quickly in 2021 than expected. The rapid recovery caused consumer prices to rise sharply, and inflation in many countries reached the highest levels in years. As a result, BNG Bank's clients also had to cope with rising costs. Furthermore, due to the increasingly tight labour market, clients found it challenging to recruit staff.

COVID-19 pandemic

In Western countries, governments began vaccinating the population almost immediately after COVID-19 vaccines were approved. As pressure on the healthcare services decreased, governments were able to gradually ease restrictive measures against COVID-19. Industries such as hospitality, transport, tourism, culture and personalised services were able to resume their activities. Business picked up strongly in most Western countries from the second quarter onwards. The rapid recovery of demand created bottlenecks in the production of intermediate goods and raw materials, including energy. As a consequence of these shortages, consumer prices rose sharply and inflation reached its highest levels for years in most countries. Consequently, BNG Bank's clients also faced rising costs.

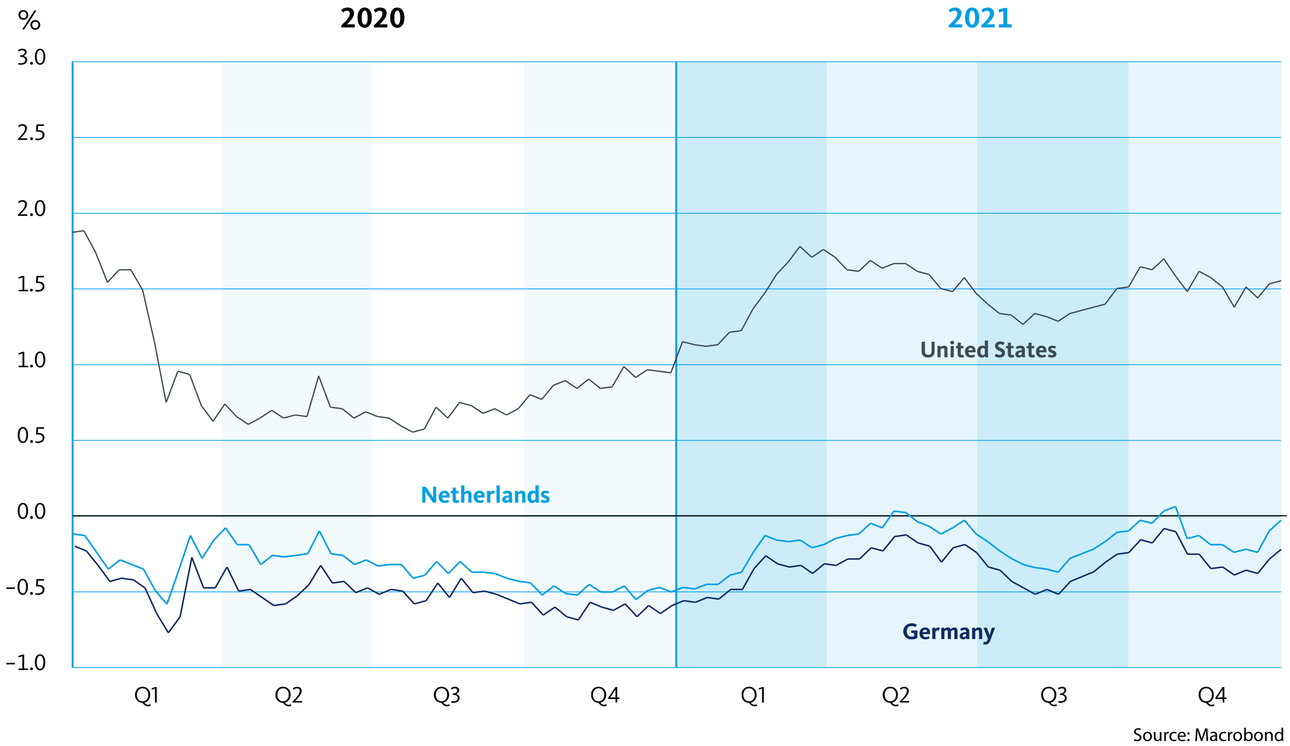
In the autumn, it became clear that the pandemic was far from over. As vaccination rates in other parts of the world are low, variants of the virus have emerged that have led to an increase in the total number of infections in Western countries as well. Governments in several countries decided to impose new restrictive measures again in late 2021.

Strong growth of Dutch economy

The Dutch economy grew by 4.8% in 2021. The recovery went faster than expected. This is partly because society was able to adapt to circumstances after the pandemic broke out. Advances in digitalisation have enabled people to work from home. Online shopping has also increased.

All expenditure categories contributed to the economic recovery. Household consumption recovered mainly due to the easing of restrictive measures in the spring. Corporate investment in fixed assets increased as well, although this was impeded by shortages of materials and natural resources. Investments in housing increased as a result of sustained demand. Housing associations created more housing in 2021. Investments in the healthcare sector showed modest growth. Government consumption increased due to higher healthcare spending. Exports grew slightly more than imports as a result of increasing foreign demand. This growth mainly concerned goods. The recovery in the services trade was limited due to restrictions on international travel.

Employment in the Netherlands improved significantly as a result of the economic recovery. A contributing factor in this was the governmental measures to support the economy that remained in force for much of the year. Unemployment fell steadily throughout 2021 to 3.8% of the workforce. BNG Bank's clients also felt the impact of the tight labour market. The number of vacancies increased considerably during the year. Despite continuing labour shortages,



Interest on 10-year government bonds

wage increases declined in 2021. Inflation measured at the harmonised consumer price increased from 1.1% in 2020 to 2.8% in 2021. This increase was largely due to higher prices for gas and other energy products.

Interest rates on the rise

Driven by the strong economic recovery, inflation in most Western countries increased more quickly than expected. In the United States, the Federal Reserve started to taper purchases of securities in November 2021. The federal funds rate, the main official rate, was held at 0% to 0.25%. The ECB continued to pursue a very generous monetary policy in 2021. As in 2020, lending was supported by loans to banks on very favourable terms through the third Targeted Longer-Term Refinancing Operations programme (TLTRO III). It is in part thanks to this programme that BNG Bank was able to provide long-term loans to its clients at very low interest rates. In particular, lending to housing associations increased in 2021. In December 2021, the ECB decided that it would terminate its Pandemic Emergency Purchase Programme (PEPP) at the end of March 2022 but that securities could still be purchased thereafter. The deposit interest rate remained unchanged at -0.5% in 2021.

On the main financial markets long-term interest rates rose, having been influenced by the economic developments as described above. In Germany, the interest rate on 10-year government bonds rose from -0.6% to -0.2%. In the Netherlands, the comparable rate rose from -0.5% to 0.0%. The euro exchange rate – affected by these interest rate developments – fell by 9 dollar cents to 1.14 dollars at the end of 2021.

Coalition Agreement: increase in government spending

The COVID-19 support measures continued to weigh heavily on Dutch public finances in 2021. According to the CPB, this constituted a total amount of EUR 29.9 billion. In 2020, the government allocated EUR 35.4 billion for pandemic-related measures. The government deficit increased from 4.2% of GDP in 2020 to 5.4% of GDP in 2021. The gross government debt increased by over 3 points to 57.5% of the GDP. Gross debt remained significantly lower than in other Western countries. The main rating agencies maintained the highest level for our country (AAA and Aaa).

Local authorities registered a deficit of 0.3% of GDP, which was the same as in 2020. This is the result of the central government's liquidity measures, on the one hand, and spending cuts by local authorities, on the other.

The Coalition Agreement of the Rutte IV government anticipates an increase in government spending of approximately EUR 26 billion in the coming cabinet term. These funds will mainly be spent on the climate and the environment, on education and social security. Another aim of the policy is tackling the problems in the housing market. As a result of the policy plans, the government deficit will be higher than previously anticipated over the coming years. The economy is expected to improve somewhat. The policy plans will create opportunities for the bank's clients.

1.3 Partnership in client sectors

Much like 2020, for BNG Bank and its clients 2021 was a year marked by the COVID-19 pandemic. In 2021, BNG Bank was able to meet its clients' credit needs and share ideas about their current and future needs. The bank maintained its position as market leader in the public domain.

The bank aims to close over 55% of the solvency-free credit demand (on a volume basis) for which it is approached by its clients. For loans to or guaranteed by municipalities, this target is set to 60%. Both targets were amply met in 2021. As such, BNG Bank is market leader in the public domain.

BNG Bank also believes it is important to know how clients experience its services. The bank views the Net Promoter Score (NPS) as an indicator of the extent to which clients feel that the bank is able to deliver reliable, efficient and high-quality services and products. In 2021, BNG Bank systematically measured its clients' level of satisfaction with Mijn BNG Bank and BNG Payment Services (questionnaire shared on a quarterly basis with 25% of the users of payment services). The bank achieved an NPS of 28 among regular users of these products. While pleased with this outcome, it realises that this score only relates to one part of its services. A pilot project was launched to measure client satisfaction with the Customer Service, with the aim of developing this into a regular short-cycle customer satisfaction survey in 2022. The measurement of the NPS will also be extended to the bank's lending process and other services.

Local authorities

Developments at local authorities

The financial position of municipalities has been under pressure for several years now due to deficits in the social domain. The COVID-19 pandemic has only increased this pressure. Financially, municipalities are raising less income through rent, levies and taxes, while expenditure increased on enforcement, social assistance, care institutions, public transport, and cultural and sports organisations. Next to this, there is uncertainty with regard to the municipality fund in the longer term. Municipalities have received additional financial support in 2021 to cope with the consequences of the COVID-19 pandemic, and some are still benefiting from the earlier sale of Eneco shares. Nevertheless, municipalities are restrained in making investments. Preparations for long-term investment plans, as well as their implementation, are being postponed because of insecurity about the long term coverage of future expenses. This is also reflected in the multi-annual budgets, in which coverage for all four years has not always been achieved. In addition, the municipal elections in March 2022 will also cause investment plans to be postponed. This applies specifically to investments in sustainability and the energy transition. Therefore, over the coming period an acceleration is needed to meet the 2030 climate objectives. More financial leeway from the central government is a prerequisite in order to release this demand for financing.

Alkmaar Duurzaam Vastgoed

Alkmaar is the first municipality in the Netherlands to make its social real estate sustainable through its own private limited company (BV), using a EUR 86.5 million in financing secured with BNG Bank. The municipality expects this construction to accelerate and improve the level of sustainability of its property.

Alkmaar Duurzaam Vastgoed BV buys and finances a substantial portion of the real estate in Alkmaar with the goal to improving the sustainability of these buildings. Because this BV focuses entirely on increasing the sustainability of real estate, Alkmaar hopes to accelerate the process. This method of making their real estate more sustainable is attractive to municipalities, partly from the viewpoint of effectiveness as well as risk management. While it may take time to set up an organisation, the municipality believes that having its own municipal BV gives it more control over the speed and the process itself. The first properties to be included in the BV are a school, three car parks and cultural buildings such as the Stedelijk Museum, Theater de Vest and a library. The BV will also build two new schools.

BNG Bank is of and for the public domain. The bank's activities revolve around creating social impact. This is the bank's key driver. Funding Alkmaar Duurzaam Vastgoed BV fits perfectly with the bank's strategy to contribute – as a partner of municipalities – to sustainable cities and communities (SDG 11) and quality education (SDG 4), in line with the Sustainable Development Goals.

Coalition Agreement

There are not many innovative elements in the Coalition Agreement when it comes to local authorities. The current method of adjusting the annual municipal fund will be used until 2025, which means that there will be no structural change in the way municipalities are funded. It is now mainly a situation of converting general resources into performance-driven ones. For certain areas, the coalition agreement contained some windfalls but only for the short/medium term. Despite the arbitration decision on this, the central government has not conceded to structurally increasing the budgets for Youth Care (Jeugdzorg) and Mental Health Care (GGD), at present the most pressing files. A municipal budget cut related to assumed increases in efficiency by merging municipalities into units with a population of at least 100,000 people, will be suspended for the entire cabinet period. In the coming years, funds will occasionally be made available again for regional deals to promote public-private partnerships. The downside of this kind of financial relief is that it does not aid societally urgent investments in the medium or long term, because this requires a structurally balanced multi-year budget, and a multi-year investment programme cannot be based on occasional budget reliefs. One noteworthy development is that resources worth EUR 1.6 billion will be made available to address bottlenecks in the housing market. These will be available to municipalities under certain conditions. However, as these resources come directly from the municipal fund, municipalities are indirectly paying for them.

BNG Bank partner of local authorities

Although the demand for credit from local authorities was lower than anticipated in 2021, BNG Bank's long-term loan portfolio in this sector remained reasonably stable. BNG Bank was able to cover more than 60% of the incoming credit demand either directly to or under guarantee of local authorities and thus met its targets in that respect. BNG Bank thus maintained its position as market leader.

During conversations with municipalities, BNG Bank discusses the support it can offer to help them meet their financial challenges. Amongst others, the bank provides advice on potential financing structures of current and future investments. A recurring topic in discussions between BNG Bank and municipalities in 2021 was the COVID-19 pandemic and its effect on them, such as the social impact of the pandemic and the degree to which support measures, such as the Temporary Bridging Scheme for Self-Employed Entrepreneurs (Tozo), were used. The bank also talked to municipalities about shortcomings in the Social Support Act (Wmo), for example, Youth Care (Jeugdzorg) and about sustainability initiatives.

Also discussed in 2021 were the strategic developments in the context of ‘Our Road to Impact’. The bank spoke with local authorities about how they perceive its continuously developing gatekeeper function. In addition, the importance of credit reviews, including those for local authorities, was also discussed. BNG Bank can use the information from the review process to gain a better understanding of its clients’ concerns as well as their funding needs.

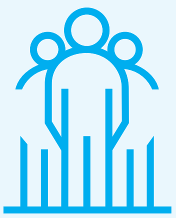
BNG Bank believes becoming a client’s principal bank is an important part of the partnership. In the year under review, the bank gained or renewed the status of principal bank with several municipalities and institutions.

Social return

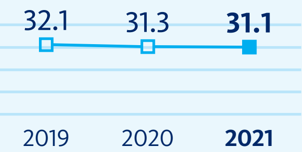
Successful bidders in tenders issued by public authorities are legally obliged to contribute to Social Return on Investment (SROI), for example by hiring someone with limited access to the labour market. BNG Bank’s commitment to SROI comes in the form of contributions to social projects or by using a platform to address supply and demand in social initiatives.

Local authorities

Long-term loan portfolio



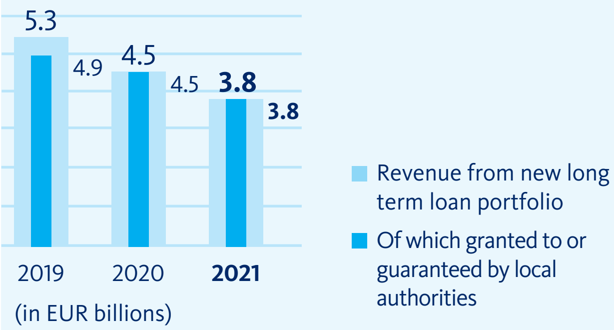
€ 31.1 billion



(in EUR billions)

Revenue from new long-term loan portfolio

€ 3.8 billion



(in EUR billions)

With its financing, BNG Bank helps local authorities to work on SDGs 3 (Good health and well-being), 4 (Quality education), 7 (Affordable and clean energy), 11 (Sustainable cities and communities) and 13 (Climate action).

Housing associations

Developments at housing associations

After investment levels began to stagnate in 2013, housing associations have started to invest again since a few years ago. In 2020, 15,199 new homes were built, which was a 14% increase compared to 2019, and a slight increase is expected in 2021 as well. However, this means that new build construction remains significantly below the target of 25,000 homes per year, and is also in historical terms at a low pace. For example, in 2010, the housing associations built 23,600 new homes. The housing associations' task force for building new homes (Taskforce Nieuwbouw Woningcorporaties) stated in its autumn report that the required construction pace of new build social housing for rent have not been achieved, mainly due to the limited availability of locations, higher construction costs and complex permit procedures in municipalities. Investment in sustainability is also on the rise. The figures from the Aedes benchmark show that, according to forecasts, housing associations will achieve on average the energy label B by the end of 2021, as agreed upon in the Energy Agreement. An increase in investment in sustainability is necessary in order to meet the targets set out in the Climate Agreement. In this respect, it is important that investments in sustainability are treated as being non-profitable by nature.

Stadgenoot housing association

The housing association Stadgenoot, solar panel and LED lighting provider Zongenoot and BNG Bank have signed a partnership accord and an operating agreement to install solar panels on a maximum of 7,075 of rented homes owned by Stadgenoot. In addition, over 30,000 LED fixtures will be placed in the common areas of Stadgenoot's housing complexes.

The project is being funded by an Energy Service Company (ESCO) called Zongenoot. Stadgenoot puts its roofs, galleries and porches at Zongenoot's disposal, which in turn will take care of the funding, installation and maintenance of solar panels and LED fixtures. Zongenoot will lease the solar panels to the tenants and provide a yield guarantee and protection against the risks of a electricity purchase agreement. The project is worth EUR 27 million and most of the funding (EUR 20 million) will come from BNG Bank.

Tenants of Stadgenoot will receive access to renewable energy, generated on their own roofs, and can simultaneously save on their energy costs. By renting solar panels, tenants are given a guarantee that they will always save on their electricity bills.

BNG Bank is of and for the public domain. The bank's activities revolve around creating social impact. This is the bank's key driver. Funding Stadgenoot fits perfectly with the bank's strategy to contribute – as a partner of housing associations – to sustainable cities and communities (SDG 11) and affordable and clean energy (SDG 7), in line with the Sustainable Development Goals.

Coalition Agreement

The problems in the housing market, and a potential role for housing associations in solving them, are a priority on the political agenda, as evidenced by the Coalition Agreement 2021-2025. The 2020 report Tasks and Means (Opgaven en Middelen) has already concluded that the social tasks of housing associations will eventually exceed their financial means. The new cabinet will therefore abolish the landlord levy in 2023. This will give housing associations more financial leeway to increase investments in new buildings and sustainability, among other areas. There is also talk of introducing project support for housing associations that need it. This will have to be financed by the rest of housing associations, which entails reallocating resources within the sector.

On the other hand, there is also talk of lowering the rent for low-income tenants and rent freezing as of 2024, which will have a negative impact on the financial position of housing associations. Given the current high level of inflation, lower rental income and higher construction costs, new investments have become less profitable. On the balance sheets, the financial room for new investments is expected to increase. However, it is important to note that additional financial room does not necessarily translate into an increase in investment levels. Additional necessities to achieve higher investment levels are availability of building locations, extra capacity in the entire construction industry and more efficient permit procedures.

BNG Bank partner of housing associations

BNG Bank remained the largest funder of the housing association sector in 2021, and its market share is as high as ever. Most of the lending in the sector is guaranteed by the Social Housing Guarantee Fund (WSW). This guarantee system is extremely crucial to the social housing sector, as it ensures the availability of capital at a low cost. WSW launched a strategic programme in 2019, which is meant to make the guarantee system even more robust. BNG Bank contributes to the programme wherever possible, for example by offering contingent liability loans (obligolening). This type of loan ensures that housing associations always have enough capital available to meet any financial commitment they have towards the WSW.

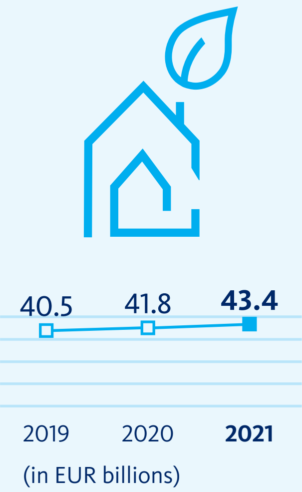
In addition, BNG Bank also provided loans without a WSW guarantee in 2021. These were loans for the housing associations' activities that are not considered services of general economic interest (non-DAEB), such as mid-income rental housing. Given the social relevance of providing a sufficient supply of affordable mid-income rental housing on the market, the bank sees the financing of such properties as key task, as long as housing associations play a role in it. Compared to previous years, the bank has noticed a growing interest among housing associations to invest in this housing market segment.

In the coming years, BNG Bank aims to improve its supporting role in the effort of housing associations to build more affordable rental housing and the process of making the current housing stock more sustainable.

Housing associations

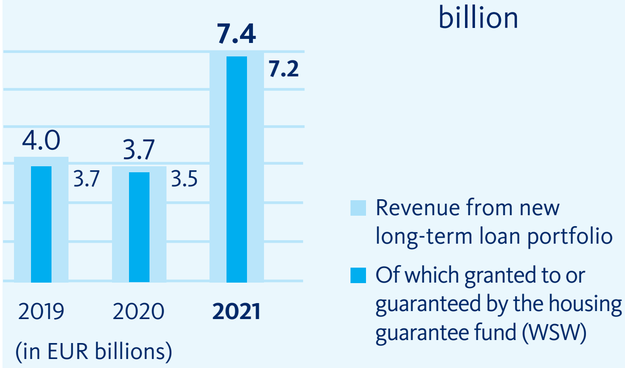
Long-term loan portfolio

€ 43.4 billion



Revenue from new long-term loan portfolio

€ 7.4 billion



7 AFFORDABLE AND CLEAN ENERGY
11 SUSTAINABLE CITIES AND COMMUNITIES
13 CLIMATE ACTION

With its financing, BNG Bank helps housing associations to work on SDGs 7 (Affordable and clean energy), 11 (Sustainable cities and communities) and 13 (Climate action).

Healthcare sector

Developments in the healthcare sector

The COVID-19 pandemic had a major impact on the healthcare sector in 2021 as well. Staff shortages severely affected the workload of personnel and made it difficult to scale up to the required capacity. As the government provided a safety net in 2021 as well, the healthcare sector was able to absorb the financial consequences of COVID-19. The safety net provided compensation for additional costs and unrealised revenue, as well as a hardship clause for tailored services. The safety net prevented financially healthy healthcare providers from facing financial difficulties as a result of COVID-19.

The healthcare sector is in transition, actively seeking a different and more efficient way to provide its services. In recent years, the government has pursued specific policies to bring healthcare closer to the citizens. However, the ageing population and demographic developments are putting pressure on healthcare and its affordability. Staff shortages were already an important issue, but COVID-19 has made it a much more visible and urgent concern. Health insurance companies have to cut budgets which forces health care providers to organise their services more efficient, with additional attention for prevention, digital consultations and a larger role for primary care.

As a result of the pandemic, healthcare housing received less attention in 2020. In 2021, this issue was picked up again. Due to the high-quality requirements and safety regulations, healthcare real estate must remain up to date. The sustainability of healthcare real estate is also receiving attention. Different parties in the healthcare sector have made an agreement in a Green Deal called ‘Sustainable care for a healthy future’, aimed at making healthcare in the Netherlands more sustainable by reducing CO_2 emissions and promoting a circular economy.

MeanderGroep Zuid Limburg

Every year, about 20,000 residents of the Parkstad metropolitan region and its surroundings benefit from MeanderGroep's facilities and services in the areas of prevention, well-being, housing, healthcare and comfort.

To maintain the quality of healthcare and meet the increasing demand for it, healthcare providers must continuously invest in themselves. The idea behind MeanderGroep's vision for healthcare which is 'lead your own life', is that people can decide how and where they want to live. Even if this becomes more difficult due to physical or mental limitations. Preferably independently, at home. If that is not possible, they can live in one of the houses or in an assisted living facility.

The MeanderGroep will carry out its 'lead your own life' vision for healthcare by means of EUR 80 million of funding from BNG Bank. This will enable the group to, among other efforts, initiate building projects, acquire technology and realise the necessary infrastructure adjustments.

BNG Bank is of and for the public domain. The bank's activities revolve around creating social impact. This is the bank's key driver. That is why the bank is funding MeanderGroep's plans. It allows MeanderGroep to improve the quality of life of the elderly and ensures the continuity of their social lives. With this funding, the bank contributes to good health and well-being (SDG 3) and sustainable cities and communities (SDG 11).

BNG Bank partner of the healthcare sector

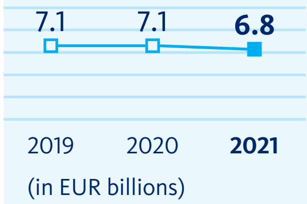
BNG Bank facilitates accessible and affordable healthcare and helps to make healthcare housing more sustainable by providing long-term and low-cost loans. Processing loan requests involves frequent contact with clients in order to exchange information. Moreover, the bank also liaises continuously with clients to maintain client relationships and share knowledge and expertise. In 2021, contact with clients regarding guaranteed loans intensified while the size of the loan portfolio remained approximately the same. That was due to the increasing information requirements in the context of Customer Due Diligence (CDD) and credit reviews.

BNG Bank's revenue from the healthcare sector remained stable in 2021. At EUR 467 million, guaranteed loans were just below the target of EUR 530 million. On the other hand, unguaranteed loans were well above the target of EUR 210 million, at EUR 326 million. The bank expects to maintain the same level of lending in 2022.

Healthcare

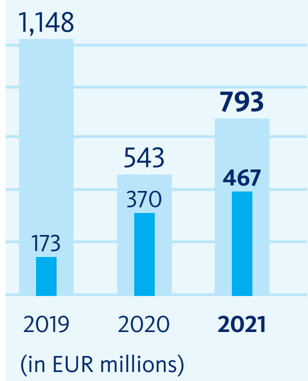
Long-term loan portfolio

€ 6.8
billion



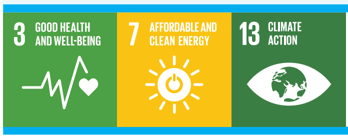
Revenue from new long-term loan portfolio

€ 793
million



Revenue from new long-term loan portfolio

Of which granted to or guaranteed by the healthcare guarantee fund (WfZ), among others



With its financing, BNG Bank helps healthcare institutions to work on SDGs 3 (Good health and well-being), 7 (Affordable and clean energy) and 13 (Climate action).

Education

Developments in education

In 2021, the education sector was again severely impacted by the COVID-19 pandemic. The quality of education is under pressure, and the learning deficit is increasing. Teaching online and working from home have created uncertainty regarding educational real estate. Decisions on new construction have been intermittently postponed. The financial impact of the pandemic remains limited. As a result of the way schools are funded, there is hardly any loss of revenue. However, there are additional costs related to the measures for schools to make it safe to teach. The education sector is facing a major challenge to improve the sustainability of its real estate. Many institutions have had to deal with a backlog of issues related to the quality of their building(s). Improving the indoor climate control of schools was already a challenge, and the pandemic has increased the urgency of this task. Additional funds are needed to meet the quality requirements. If the sector fails to raise the required funds, this will affect its ability to contribute to meeting the objectives of the Climate Agreement.

BNG Bank partner in education

BNG Bank contributes to affordable, high-quality accommodation for educational institutions and acts as a partner in the effort to improve sustainability in educational real estate. For the primary and secondary education institutions, the funding for investments and sustainability initiatives goes through the municipalities. When funding is not provided by the municipalities, there are possibilities to provide low-cost loans, depending on whether a guarantee can be provided. BNG Bank directly funds the real estate of higher education and universities. BNG Bank's direct lending to the education sector fell short of expectations in 2021. At EUR 59 million, the guaranteed loans fell short of the target of EUR 95 million. The unguaranteed loans amounted to EUR 74 million, well above the target (EUR 60 million).

Bio Science Park housing complex in Leiden

A new housing complex is being built on Boerhaavelaan in the immediate vicinity of the Bio Science Park in Leiden. It will offer accommodation to 260 PhD students and visiting researchers affiliated with Leiden University and Leiden University Medical Center (LUMC).

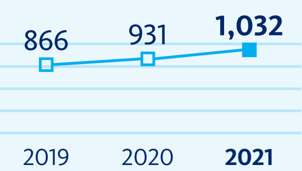
From 2018, BNG Bank provided a total of EUR 28 million in funding to Stichting Universitaire Woonwijk Boerhaave for the construction of three phases of the Boerhaavelaan complex. These loans are guaranteed by the municipality of Leiden. In 2021 the financing was concluded for the third phase: the construction of 67 accomodations that will be completed in 2022. All these accommodations will be gas-free, equipped with advanced insulation, triple glazing and solar panels.

BNG Bank is of and for the public domain. The bank's activities revolve around creating social impact. This is the bank's key driver. This project funding helps to make affordable, high-quality educational properties available. It gives PhD students and the staff a pleasant living and working environment with an easy commute to the university and LUMC. The bank's funding contributes to quality education (SDG 4) and sustainable cities and communities (SDG 11).

Education

Long-term loan portfolio

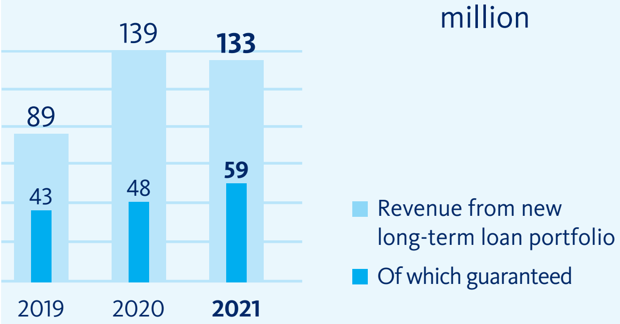
€ 1,032
million



(in EUR millions)

Revenue from new long-term loan portfolio

€ 133
million



(in EUR millions)

With its financing, BNG Bank helps educational institutions to work on SDGs 4 (Quality education), 7 (Affordable and clean energy) and 13 (Climate action).

Notable events in 2021

January

€2 billion SDG Bond for municipalities

March

BNG Bank nominates three individuals for appointment as Supervisory Board members as of 22 April 2021: Karin Bergstein, Leonard Geluk and Femke de Vries

The CO_2 emissions of BNG Bank's clients decrease, thanks in part to more sustainable social housing

Client Council: public sector

April

Departing Supervisory Board members: Marjanne Sint and Jantine Kriens

Waste processor Omrin achieves a net CO_2 emissions reduction of 6,202 tonnes

May

Age Friendly Cultural Houten wins BNG Bank Lang Leve Kunstprijs

June

Client Council: problems in the housing market

New top structure: with three new members, BNG Bank's five-member Executive Committee is complete as of early June

July

Stadgenoot provides a strong incentive for solar energy in Amsterdam

August

Housing for employees of Leiden University

September

A first in the municipality of Renkum!
Lampposts that can also charge cars

October

The 2021 BNG Bank Music Award
goes to Coraline Groen

The 2021 BNG Bank Heritage Award
celebrates its tenth anniversary

November

Prominent role for whitepaper
on heating networks on Energeia Energy Day

The MeanderGroep in Kerkrade implements
its ‘Lead your own life’ vision for care with
€80 million of financing from BNG Bank

Client Council:
payment transactions

€1.5 billion SDG Bond
for housing associations

Financing of Evides share transaction of
€367 million to the province of Zeeland
and its municipalities

evides
waterbedrijf

€2 billion WSW bond facility,
€1 billion of which by BNG Bank

December

BNG Sustainability Fund
issues 141 sports loans in 2021

1.4 Strong position in money and capital markets maintained

Thanks to high external ratings (Moody's: Aaa; Fitch Ratings: AAA; S&P Global: AAA), BNG Bank was able to raise short-term and long-term funding in various currencies at attractive rates in 2021.

Raising short-term and long-term capital in various currencies on the international money and capital markets (funding) is an important activity for BNG Bank, enabling it to provide clients with financing. BNG Bank obtains the majority of its funding through the public issue of (benchmark) bonds on the international money and capital markets. A limited share is acquired through private placements. More information is available on BNG Bank's website.

Developments 2021

In 2021, BNG Bank raised EUR 12 billion in long-term funding with an average maturity of 10 years. In response to client demand for loans with longer maturities, the average funding duration was also significantly higher than in recent years. The total amount of long-term funding was relatively smaller. This was mainly due to BNG Bank's participation in the ECB's third Targeted Longer-Term Refinancing Operation (TLTRO). The conditions were so favourable that BNG Bank decided to participate again, like in 2020. The purpose of this TLTRO III is to stimulate the real economy by providing liquidity to specific target groups, including social housing associations and healthcare institutions.

In the past year, BNG Bank further optimised the operational processes for funding instruments linked to SOFR (US dollar) and SONIA (British pound). These new, risk-free interest rates will become the future market standard and play an important role in BNG Bank's funding strategy. The inaugural SOFR transaction in 2021 shows that BNG Bank supports the transition to the new interest rate index and thus complies with the EU Benchmark Regulation.

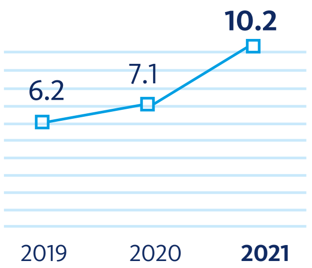
SDG bonds

BNG Bank offers SDG bonds as a special category of public issues. These bonds are issued in line with the bank's new Sustainable Finance Framework, which has replaced the previous sustainability framework. The new framework will be used to finance municipalities and social housing associations, and will directly link municipal budgets and spending to the 17 SDGs. Two bonds worth a combined EUR 3.5 billion have been issued successfully in 2021 under the new framework. In 2021, over 25% of the total long-term funding was raised under the Sustainable Finance Framework.

Key figures for funding

Total outstanding SDG Bonds

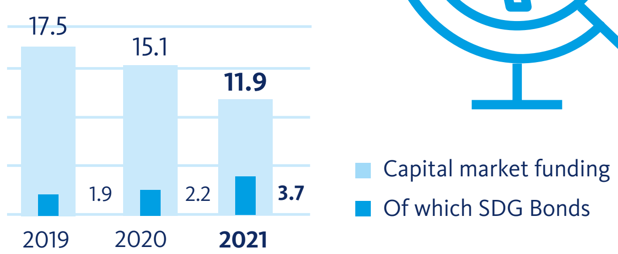
€ **10.2** billion



(in EUR billions)

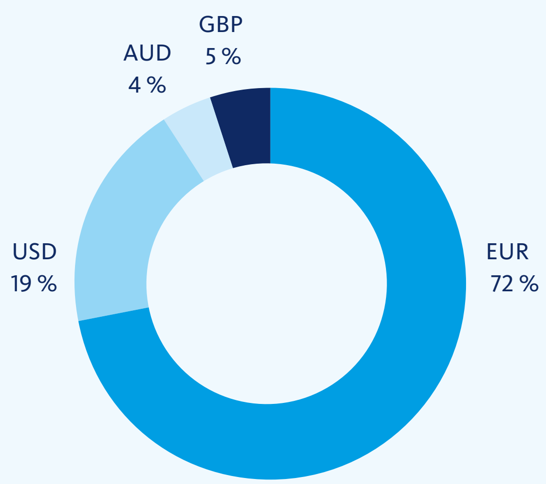
Long term funding raised

€ **11.9** billion

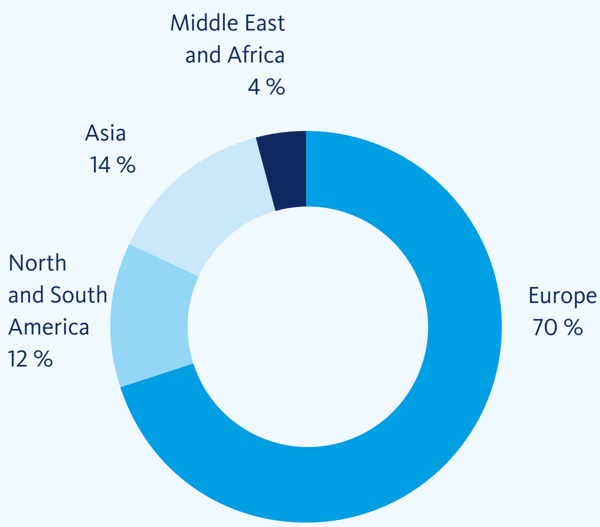


(in EUR billions)

Funding by currency



Funding by geographic region



INTERVIEW with **OLIWIA ZYGNAROWSKA** and **JOHAN VELDHUIS**

“We are making the financial system stronger and safer”

You can call them BNG Bank’s ‘gatekeepers’. In the Client Integrity department, employees are on the watch for unusual behaviour in client transactions. Among other things, they ensure that money does not end up in the wrong hands. “We see more than our clients do. So we help them to direct financial flows in the right direction.”

“We’re the youngest department in the bank,” says Johan Veldhuis, Team Lead of Client Integrity at BNG Bank. “And the coolest! At least, that’s what we think. We investigate and analyse clients and their transactions. That enables us for example to discover how they obtain their assets, what their organisational structure is like and whether there are any integrity risks we should be aware of. We’re vigilant for transactions with links to fraud or the unintentional financing of terrorism. It’s our job to track this down.”

Unblemished record

“We advise clients on how to make their transactions safer,” Veldhuis says. Sometimes we also ask them to take measures to control specific risks. We can do this because we observe things that they can’t see.” Clients appreciate this advice. “We prevent them from getting into a predicament so they can focus on what they’re good at: making a social impact.” The bank also benefits from the department’s work, according to Oliwia Zygnarowska, Compliance Officer at BNG Bank, who until last year worked in Veldhuis’ department. “Not only because we’re known for having an unblemished record, but also because we keep bad money out of the financial system we operate in. The more effective we are at that, the stronger and safer the system – and that includes us.”

Engaging in discussion

The work at the Client Integrity department used to be spread across all departments. Now it has been brought together in one place. “Here, we integrated forces to carry out the most effective analyses imaginable. We research all kinds of sources and use programs to filter out relevant information. But we definitely don’t only rely on programs. We use our common sense too.”
“We don’t do our work exclusively behind a computer,” Zygnarowska emphasises. “We also engage in discussions with our clients about the integrity risks we have observed. These dialogues are the only way to discover why there is abnormal behaviour, what’s going on and how the client can prevent wrong transactions in the future. Raising awareness among our clients is extremely important.”

2 INTERNAL BUSINESS OPERATIONS

2.1 Employees

To successfully implement the strategy, it is crucial to have motivated and skilled employees on board, and to develop and attract the right talent. In 2021, BNG Bank welcomed a large number of new employees. Despite the impact of COVID-19 measures on the work situation, our employees demonstrated great commitment and enthusiasm.

Strengthening the internal organisation

One of the strategic pillars of 'Our Road to Impact' is strengthening the internal organisation. This involves both organisational development and the development of our employees.

In 2021, BNG Bank took important steps to improve organisational development. At the start of the year, a new organisational structure was introduced, headed by a five-member ExCo. The positions of Chief Commercial Officer and Chief Operating Officer ensure that the commercial, IT and operational perspectives, respectively, are represented at the highest level. In 2022, action will be taken to further develop the organisation, particularly the organisational units that are managed by the CCO and COO.

Since the ExCo was established, it has focused a great deal on defining its leadership role. This prompted the ExCo to determine what would be appropriate and suitable leadership and exhibit exemplary behaviour, in helping to achieve 'Our Road to Impact' . The intention was to set up a leadership programme for the other managers in 2021. This did not materialise, in part due to the inability to physically meet during the pandemic. In 2022, the bank would like to use its HR strategy to bridge the gap with other executives to work with them on the leadership development, both at the organisational and the individual levels, which is required to achieve the bank's ambitions.

In 2021, the bank made a start with strategic staff planning in close cooperation with its management. In this context, the bank outlined what it needs in terms of personnel, now and in the future, in close connection with the realisation of the strategic objectives. As part of the strategic HR planning, the question of how employees could achieve their development potential was addressed. Moreover, the analysis provides further insight into current and future recruitment needs, at the departmental level and across the bank. This not only concerns knowledge and skills but also competencies and behaviour. The strategic HR planning should also help the bank to develop the necessary leadership and employee profile and help define leadership development and active career development policy. Career development policy is used to increase the personal flexibility of employees and the options available to them, thereby also increasing the flexibility of the organisation. Training and mobility budgets are available to all employees. In addition, employees are periodically assessed on their performance and development in the context of the performance management cycle. BNG Bank aims to improve performance dialogue. Giving and receiving feedback at times when it really matters should become a key element of the corporate culture. Leadership plays an important role in this process.

In 2021, BNG Bank conducted another employee survey. The bank is pleased with the high response rate (more than 85%). The survey concluded that the commitment and engagement of employees are good, but that there are concerns regarding work pressure and the work-life balance. Undoubtedly, the considerable amount of time spent working from home, combined with care and teaching duties, play a role in this. Where necessary, the departments have identified actions they can take to follow up on points of concern.

In response to the outcome of the employee survey, a company-wide vitality programme was rolled out, in which over 150 employees participated on a voluntary basis. Vitality is being addressed in other ways as well. Coaching and vitality leave are being used to work on employees' deployment and vitality, and they can take yoga lessons or benefit from a sports budget, for example. Moreover, BNG Bank offers support to employees who are leaving the bank. Employees who are about to retire can take a training course called 'Retirement in sight'. In case of redundancy a coaching and outplacement guidance programme is available.

In 2021, BNG Bank started the development of a communication strategy in order to establish better presence on the labour market. An employer's proposition was drafted during workshops in which the bank's employees participated. By using this proposition in its communications, the bank aims to represent its organisation more prominently in 2022, and by doing so will be able to increase and improve its presence on the labour market. In 2021, frequent meetings were held with the Works Council. In addition to various requests for advice and approval, issues such as the annual occupational health plan, the HR strategy and the standby arrangement were regularly addressed, both in regular consultation meetings and in meetings between specific Works Council committees and representatives from the HR department.

Inclusive work environment

BNG Bank encourages the recruitment, retention and use of diverse talent, and believes in its added value. BNG Bank aims to be an organisation that provides a work environment in which people feel welcome, can be themselves and are valued for who they are. The perfect team consists of a mix of men and women of different ages and backgrounds in terms of ethnicity as well as education, training and competences. BNG Bank meets the target it set of having an occupancy of at least 33% men and at least 33% women on the Supervisory Board and the ExCo.

Male/female	Supervisory Board	ExCo	Managers	Employees
Male	5	3	31	246
Female	3 (38%)	2 (40%)	10 (24%)	116 (32%)

362 colleagues

116 female

246 male

34 left the organization

66 commenced employment

34 changed position internally

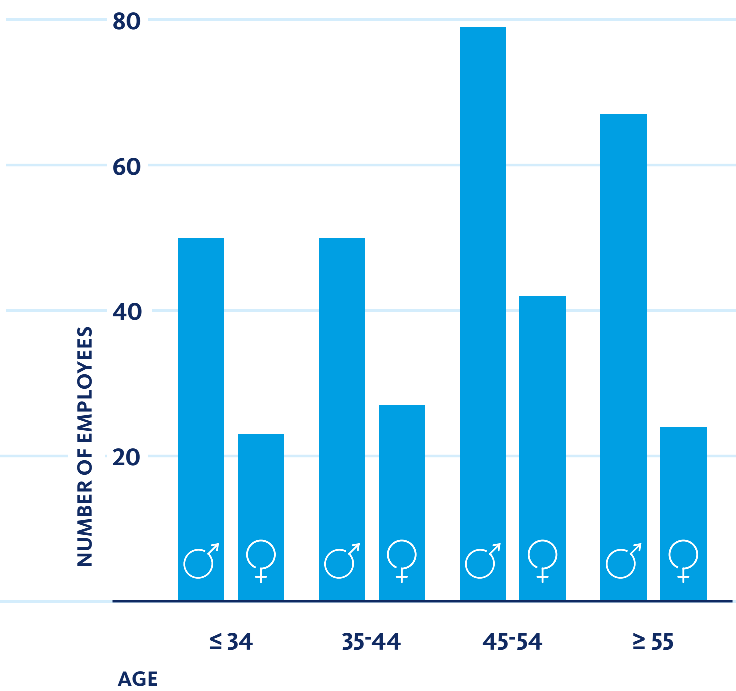
46 years is the average age

48 work part-time
< 32 hours

314 work full-time
> 36 hours

19 years is the youngest employee

66 is the eldest employee



In and outflow

	Inflow – male	Inflow – female	Outflow – male	Outflow – female
≤ 34 years	22	10	6	4
35-44 years	13	3	2	1
45-54 years	10	4	6	5
≥ 55 years	2	2	7	3

Employees

The workforce of BNG Bank and its subsidiaries increased by 32 employees, to a total of 362 employees (353.3 FTEs) with a fixed term or indefinite contract. BNG Bank employs 355 people, while its subsidiary BNG Gebiedsontwikkeling employs 7 individuals and its subsidiary Hypotheekfonds voor Overheidspersoneel has no employees. The growth in the number of employees at BNG Bank is considerable, especially if one considers that the number of external workers also increased in 2021 (99 external employees at year-end 2021). The growth in employees, especially external ones, can be attributed to rectifying the backlog in the lending process (including CDD activities). Apart from the growth in staff, there was also an increase in internal mobility at BNG Bank. The increased focus on career and personal development is paying off: in 2021, 34 employees changed positions. Overall, internal mobility increased: 2021 showed an inflow of 66 new employees versus an outflow of 34. New staff members usually start with a fixed-term contract, which is usually converted into an open-ended contract if both parties are satisfied. There are 64 employees (17.7%) on a fixed-term contract. The number of employees working part-time is limited: 18 men (5.0%) and 30 women (8.3%). BNG Bank allows its staff to combine care tasks and work in the best way possible. Parental leave (taken by 11 men and 8 women in 2021, 19 in total in 2021), care and temporary additional measures in view of COVID-19 are used for this purpose. 18 employees whose parental leave has ended have returned to work.

Increased mobility as well as the increase in staff result in the average age going down compared to 2020 (2021: 45.9, compared with 2020: 46.6). Looking at the future, the bank is satisfied with this development. Logically, this also means that the average length of service of employees has decreased as well (2021: 11.4 years, compared with 12.7 years in 2020). Despite the increased inflow, through-flow and outflow, the challenges on the labour market are still considerable. Vacancies for IT professionals, financial specialists and risk managers are relatively long: the average time to hire of 73 days in 2021 is above the bank’s target. In 2021, BNG Bank took measures to enhance its presence on the labour market with its proposition.

In many cases, the employment conditions are sufficiently competitive. The Collective Labour Agreement (CLA) for banks, which applies to 97% of the employees, offers a good package of fringe benefits in addition to a remuneration structure. This package is supplemented at BNG Bank level with company-specific schemes for all employees and various target groups. In July 2021, salaries increased by 1.4% based on the CLA. All employees participate in a pension scheme. As the employer, BNG Bank contributes 70% to pensions, while the employee contributes 30%. All figures mentioned are as of the end of 2021.

A healthy and safe work environment

The COVID-19 pandemic has had consequences for BNG Bank’s employees. The Emergency Management Team (EMT), consisting of people responsible for HR, Security, IT and Facility Management, among others, consulted frequently on the measures needed to respond to the COVID-19 pandemic. In doing so, the bank aligned its response to government measures to the greatest extent possible. Working from home and videoconferencing were facilitated by making digital tools available, improving the design of employees' home offices (with a home office allowance) and giving advice on how to best work from home. Employees also received a homeworking allowance for costs incurred whilst working from home. Employees working in critical positions were spread out over the offices in The Hague and Voorburg when the measures required it. These employees were given the opportunity to work in a safe office environment thanks to appropriate safety and precautionary measures.

BNG Bank's policy on working conditions aims to maintain a healthy work environment for employees and prevent absence due to illness. The absence rate for sick leave at BNG Bank was 3.0% in 2021. The absence rate was therefore equal to the internal marker of 3.0%. The marker for frequent absence was set at three or more incidences of illness in the past 12 months to promote early detection. In the event of frequent absence, managers will speak directly with employees. In addition, a Social Medical Team (SMT) meeting is held periodically with each manager, which is attended not only by the manager in question, but also by the company medical doctor, the staff welfare officers and HR. The SMT discusses early warning signals for potential absence due to illness. This allows managers to engage with employees in good time and discuss what is necessary to prevent absence.

A safe work environment is extremely important. BNG Bank focuses on creating a diverse, inclusive and safe work environment regarding the behaviour of managers and employees. Moreover, it has tools in place, such as internal and external counsellors, a complaints procedure and company code. In 2021, the counsellors at BNG Bank were consulted twice, without this resulting in a formal report about undesirable behaviour or a breach of integrity. BNG Bank has a management system for health and safety at work based on the Working Conditions Act. All internal and external employees are covered by this system. More information about this management system is available on the website. The procedure for reporting incidents is set out in the regulations concerning inappropriate behaviour. In addition, internal and external confidential counsellors are available. In 2021, no reports of incidents of discrimination were received.

Restrained remuneration policy

BNG Bank aims for a restrained remuneration policy that corresponds with its identity and strategy. BNG Bank wants to ensure that its remuneration policy does not encourage people to take more risks than are deemed acceptable or provide incentives for dishonest behaviour. The Supervisory Board monitors the remuneration policy. The general principles of the remuneration policy for the ExCo and employees has been approved by the Supervisory Board. The implementation of the remuneration policy is reported to the Supervisory Board annually. To this end, Risk Management conducts a risk analysis for various components of the remuneration policy. Every year, the Supervisory Board assesses whether the remuneration policy complies with the principles for a restrained remuneration policy.

Adoption of the remuneration policy for the statutory members of the ExCo and adoption of the remuneration scheme of the Supervisory Board is done by the General Meeting of Shareholders (AGM). In 2021, the salary of the highest-earning member of the ExCo was 4.0 times the median salary of employees at BNG Bank (4.3 in 2020). The average salary (wage bill) decreased by 2.09% compared to 2020 (3.5% increase in 2020).

The remuneration policy and the remuneration report are published on the website. The remuneration of the members of the ExCo and the Supervisory Board during 2021 is included in the Financial Statements.

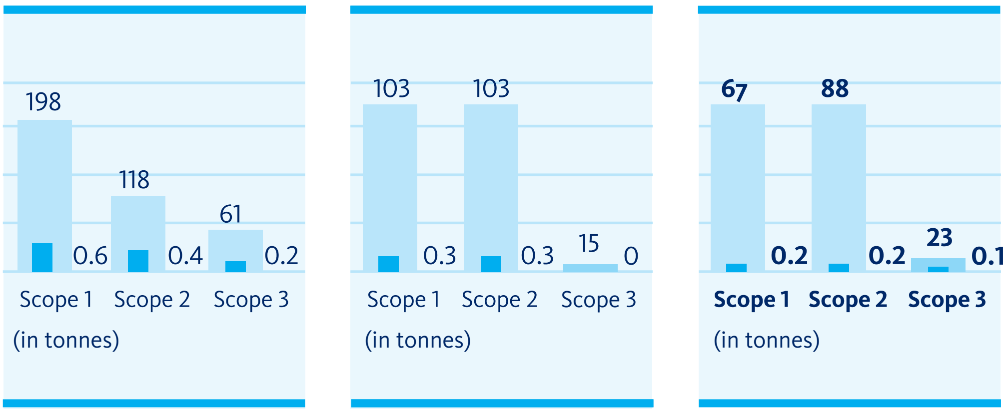
2.2 CO_2 emissions of business operations

BNG Bank aims to carry out its business operations on a CO_2 neutral basis, to use materials as efficiently as possible and to reduce its CO_2 emissions.

Every year, BNG Bank reports the CO_2 emissions produced by its business operations based on Scope 1, 2 and 3 of the Greenhouse Gas Protocol (GHG). The section titled Reporting principles principles explains how the CO_2 emissions of the internal business operations are calculated. Just as in 2020, in 2021 the COVID-19 pandemic had a major impact on the bank's CO_2 emissions. In 2021, total CO_2 emissions amounted to 178 tonnes. The decrease can be mainly attributed to a revision of the emission value for district heating, which the supplier has adjusted downward. Applying this emission value to the 2020 figures results in a decrease of the bank's footprint of approximately 6%. BNG Bank has more than offset its own carbon footprint with compensation measures (300 tonnes in total). In addition to decreasing its carbon emissions as a result of the lower emission value for district heating, the use of fossil fuels by lease cars also further decreased. Air travel has virtually come to a standstill. Electricity consumption decreased by 6% compared with 2020. Heat consumption increased by 25%. The Scope 3 emissions also include the approximate natural gas consumption of the (leased) back-up site. BNG Bank's office in The Hague is powered by green energy. Sustainability plays an important role in the decision-making process on topics such as accommodation, procurement, ICT and travel policy.

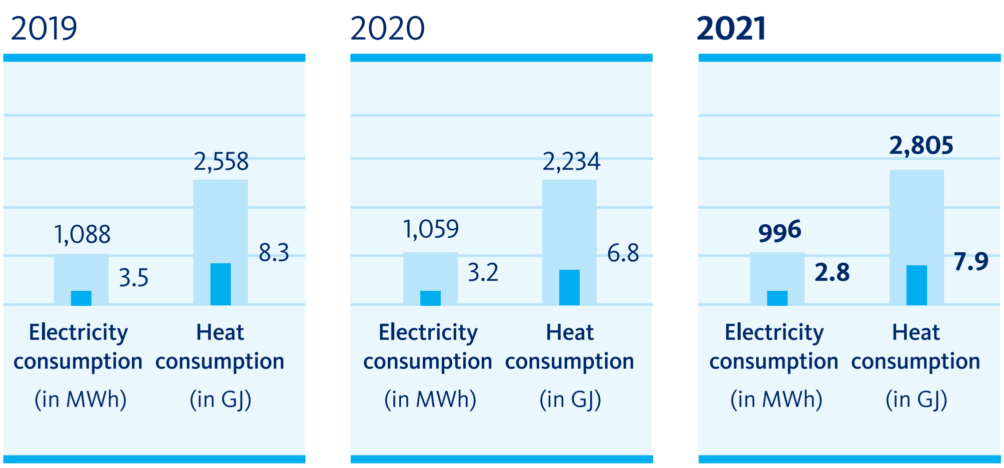
Emissions

2019	2020	**2021**
Total **377** tonnes (1.2 per fte)	Total **221** tonnes (0.7 per fte)	**Total** **178** tonnes (0.5 per fte)



Absolute
Per fte

Energy and heat consumption



Absolute
Per fte

2.3 Compliance

While realising its goals and ambitions, BNG Bank has the responsibility to comply with laws, regulations and internal standards in order to serve the interests of its stakeholders and thus to safeguard the integrity of its organisation, clients, employees and markets.

Laws and regulations

As a systemically important bank, BNG Bank has to deal with many complex laws and regulations. BNG Bank considers the need to comply with all requirements and to assume social responsibility as self-evident and seamlessly connected to its social ambitions. The Compliance Management Framework (CMF), which maps out the consequences and the necessary preparations for approaching legislation and regulation, safeguards the management of new legislation and regulation. The CMF consists of a policy, working methods, roles and responsibilities in order to ensure that new or amended legislation and regulations are detected in time and their consequences for the bank are analysed and implemented. BNG Bank monitors compliance with applicable laws and regulations. This reduces and manages the risk of financial or reputational loss or the failure to achieve its goals due to inadequate compliance.

Ethical business practices

Ethical business practices are an important foundation of BNG Bank. These include the integrity of directors and employees and the provision of fair products and services. The bank acts with due care for responsibilities and applicable rules, in a morally responsible manner, based on generally accepted social and ethical standards. The security of information systems and the data entrusted to BNG Bank comply with stringent security requirements. The bank applies internal policy and rules of conduct to safeguard its integrity and to comply with relevant legislation and regulations. This concerns, for example, the monitoring of private investment transactions by employees, the prevention and transparent management of conflicts of interest and the protection of confidential information. Maintaining and increasing awareness of regulations, compliance procedures and fraud and anti-corruption measures are also given attention. New employees receive the BNG Company Code, the bank's code of conduct. Internal and external employees take the Dutch banker's oath. On this occasion, BNG Bank reflects on the theme of integrity and how it has given substance to it. Duty of care and acting in client's interest are key to the bank's services. BNG Bank aims to provide transparent products that meet clients' needs and carry manageable risks for clients. BNG Bank ensures that clients are provided with clear and concise information and are warned of the risks attached to certain products. A complaints procedure is available on the website. In addition, the bank has in place procedures for accepting new clients, monitoring of existing clients and preventing involvement in financial economic crime. The 'Anti-Corruption and Conflict of Interest Policy' is published internally and available to all employees. Various regulations mentioned in this policy, such as the BNG Company Code, the Private Investment Transactions Regulations, Rules on gifts and private transactions with suppliers and Rules on employees' ancillary positions, are published on the website and accessible to all stakeholders. The Customer Due Diligence (CDD) policy also pays attention to preventing involvement in corruption. The Systematic Integrity Risk Analysis (SIRA) for BNG Bank and its subsidiaries is updated annually. The 2021 SIRA process has been positively assessed by the supervisory authority.

In relation to anti-corruption and financial transparency, BNG Bank fulfilled its gatekeeper function in 2021 along two lines. After taking stock of the learning needs, an awareness training course in the field of CDD was compiled. The training was attended by BNG Bank's managers in the year under review and was evaluated as 'good'. In 2022, all employees will participate in the training. In the year under review, a separate Client Integrity department was formed, with which the bank investigates and assesses the integrity of its business relations, in accordance with stricter standards. Since then the number of CDD reviews carried out has accelerated. The department's activities in the field of transaction monitoring led to several reports of unusual transactions in the year under review.In 2021, BNG Bank was not involved in legal proceedings or sanctions for non-compliance with laws and regulations in the field of financial supervision, corruption, human rights, the environment, competition, product liability or privacy, or in legal proceedings or sanctions for anti-competitive measures to which the bank was directly or indirectly a party.

Supply chain management

BNG Bank acts as an intermediary between the international money and capital market and the Dutch public domain. In 2021, no changes of note occurred in the supply chain in which BNG Bank operates. The bank raises short and long-term funding in various currencies on international money and capital markets. Most of the bonds issued by BNG Bank are tradable on the stock exchange, and therefore the bank has no influence on their ownership. BNG Bank partly covers its short-term funding requirement by accepting deposits (mostly from central banks) and by carrying out transactions with financial institutions. These counterparties are subject to the CDD policy, based on the ethical business practices requirement imposed by the Dutch Financial Supervision Act (Wft), the Dutch anti-money laundering legislation (the Money Laundering and Terrorist Financing (Prevention) Act - Wwft) and the 'Dutch Banking Sector Agreement on international responsible business conduct regarding human rights'. BNG Bank's clients operate in the Dutch public domain. Most of the loans granted (over 90%) are loans to or guaranteed by the public authorities. The CDD policy is aimed at knowing and monitoring clients and their transactions to prevent and combat financial and economic crime. With this policy, the bank fulfils its important gatekeeper function, with the objective of preventing criminally acquired money from entering the financial banking system.

The execution of the payment transactions for BNG Bank's clients and the internal office automation are carried out by Centric FSS, an important collaborative partner. The bank received a so-called ISAE audit report regarding the internal control of Centric. BNG Bank expects clients and other parties to comply with the legislation and regulations that apply to them. The same also applies to the business partners that they work with in their turn in order to carry out their own activities.

The manner in which BNG Bank respects human rights in the chain is set out in the Human Rights Policy. This policy identifies various manifestations of human rights violations as exclusion criteria. In doing so, the bank strives to guarantee that no human rights violations take place at clients' premises or in clients' supply chains and ensure that the bank is not associated with such violations.BNG Bank has also identified several sectors to which it does not offer services. These sectors are detailed in BNG Bank's ESG at BNG Bank document. From 2020 onwards, the Equator Principles are used as the starting point for monitoring and accountability for project financing.

2.4 Risk management

Risk management is aimed at identifying and controlling potential risks associated with day-to-day business operations. At BNG Bank, risk management is focused on maintaining a safe risk profile, which is reflected in high external credit ratings.

The process of accepting and controlling risks is inherent to the day-to-day activities of any bank. To perform its activities, the bank must accept a certain level of credit, market, liquidity, operational, compliance, security and strategic risk. BNG Bank's risk management approach focuses on maintaining a safe risk profile. The bank's risk appetite is restricted by a strict capitalisation policy, the restriction on services and counterparties in its Articles of Association, and the fact that the bank does not have a trading book.

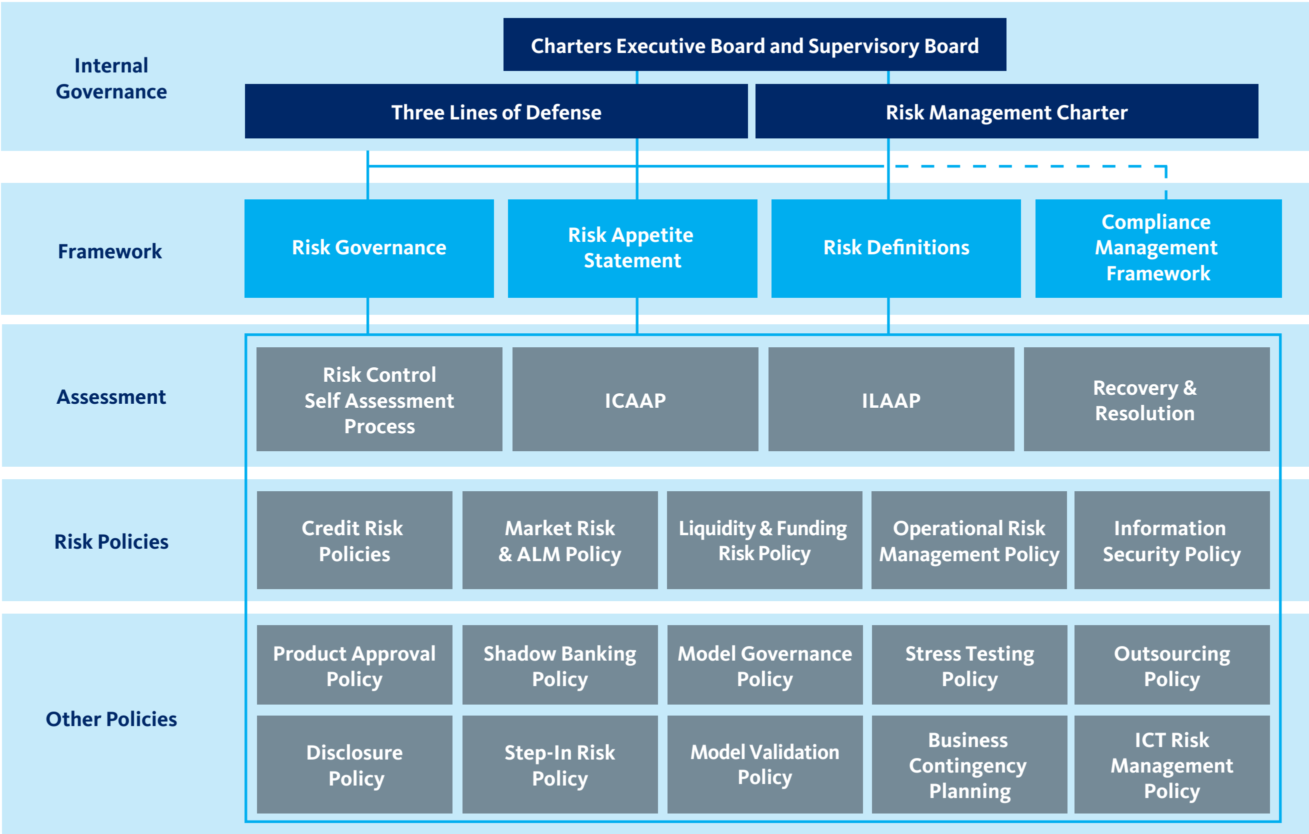
Internal Governance Framework

The Internal Governance Framework (IGF) formalises the design of the internal organisation and provides the basis for all decision-making within BNG Bank. The IGF consists of various elements, among which the Three Lines of Defence model (3LoD), the Risk Management Framework (RMF) and the Compliance Management Framework (CMF). The 3LoD describes the roles of the three lines in relation to the bank's internal control and risk management system. The RMF contains the overarching policy on general and specific risk-related subjects, such as risk governance and the risk appetite framework. The RMF is tailored to BNG Bank's specific company profile. Risk management activities have been integrated into all parts of the organisation where significant risks may arise. The ongoing risk management process comprises of identification, assessment, measurement, monitoring, reporting and steering of the various types of risk. The CMF focuses on the detection, impact assessment and controlled implementation of new laws and regulations.

Risk governance and Risk Management Framework

BNG Bank's two-tier governance structure consists of a Supervisory Board (SB) and an Executive Committee (ExCo). The SB approves the bank's Risk Appetite Statement (RAS) and supervises the development of the actual risk profile in relation to the approved risk appetite. The ExCo is responsible for drawing up the RAS and ensuring the bank's operating activities are carried out within the parameters of the risk appetite for the various risks. The ExCo performs this task via various risk-oriented committees, namely the Asset & Liability Committee (ALCO), the Credit Committee, the Capital Committee, the Financial Counterparties Committee, the Investment Committee and the Non-Financial Risk Committee that was introduced in 2021. A description of the tasks and members of these committees is published on the website.

Risk Management Framework



The 'first line' (the business) is the risk owner and is primarily responsible for risk identification, designing and executing internal controls to manage the risks associated with business processes.

The following 'second line' departments, which are directly positioned under the Chief Risk Officer, further support the ExCo in implementing and executing the bank's risk management policy:

- **Risk Management**: The Risk Management department supports the business in identifying, qualifying and quantifying the risks. It also monitors risks with the support of specific risk management instruments and reports on these activities. These risks consist of financial risks (credit risk, market risk and liquidity risk) and non-financial risks (operational risk and strategic risk). The Risk Management department also maintains the RMF and the various risk policies. The coordination of scenario analysis is also assigned to the Risk Management department, with regard to both the economic and the normative perspective (in which an adverse climate scenario is calculated, among other scenarios). The purpose, position and authorities of the function are documented in the Risk Management Charter. Risk Management is represented in the risk-oriented ExCo committees and takes part in meetings held by the SB's Risk Committee. The Head of Risk Management reports to the Executive Committee and has a reporting line to the SB.
- **Credit Risk Assessment**: The Credit Risk Assessment department provides independent assessments and advice on risks relating to individual credit proposals and reviews for clients and financial counterparties, including non-performing loans and loans where a strong increase in credit risk is perceived. The department participates in the formulation of policies with respect to credit risk. These include the Credit Risk Assessment Framework (CRAF), which has improved the quality of the bank's client

risk assessment procedure. As part of the operational lending process, the department is represented on all credit risk-oriented ExCo committees.

- **Compliance**: The Compliance department oversees the integrity of the organisation, its clients, employees and its markets, by providing advice, training and support related to conduct and integrity and by monitoring compliance with corporate values, codes of conduct, generally accepted social standards and values, laws, regulations and supervisory requirements. Furthermore, the Compliance department is responsible for organising the process of identification and impact assessment of regulatory developments, supporting the organisation in performing the Systematic Integrity Risk Analysis (SIRA), developing compliance policies and monitoring and reporting on integrity and compliance risks. As part of its responsibilities, the compliance function aims to ensure that BNG Bank operates within its integrity and regulatory compliance risk appetite. The purpose, position and authorities of the compliance function are documented in the Compliance Charter. The Compliance Officer reports to the Executive Committee and has a reporting line to the SB.
- **Security**: The Security department monitors, facilitates, supports and challenges the business in order to safeguard the reliability (confidentiality, integrity and availability) of information IT infrastructure and critical business processes with regard to (cyber)threats. Security is responsible for developing and maintaining the information security policy, maintaining the crisis management policies and the execution of the security awareness programme. Furthermore, the Security department is responsible for monitoring and reporting on security risks. As part of this responsibility, the Security department aims to ensure that BNG Bank operates within its security risk appetite. The purpose, position and authorities of the Security department are documented in the Security Charter.

Finally, the ‘third line’ is represented by the internal auditors working in a separate department positioned under the Chief Executive Officer (CEO), to reflect their independence from the business.

- **Internal Audit Department (IAD)**: The IAD periodically conducts operational audits to evaluate the design and operational effectiveness of the bank’s risk management systems and assess compliance with the applicable legislation. The purpose, position and authorities of the IAD are documented in the Internal Audit Charter. The IAD reports to the ExCo and has a reporting line to the SB.

Risk Appetite Framework

An important element of the RMF is the Risk Appetite Framework (RAF). This framework covers policies, processes, controls, and systems for establishing, communicating and monitoring the bank’s risk appetite. In addition, the RAF includes the RAS, the subsequent risk limit setting, and an outline of the roles and responsibilities of parties overseeing the implementation and monitoring of the RAS. The RAS is updated annually, based on external and internal developments and cascaded into limits and targets for the various types of risk. These are subject to a quarterly monitoring programme to determine whether the bank respects the limits of its risk appetite. The outcomes are reported to the ExCo and the SB. The report not only provides aggregated information derived from figures used for periodic limit monitoring, but also aims to present a holistic view on long- and short-term risks and underlying processes.

Risk Appetite Statement 2021

Reputation and internal business operations

Indicator

Credit rating and other indicators

Qualitative description of risk appetite

- Preserve status of promotional bank.
- Sound conduct and ethical business practices.
- Compliant with laws and regulations and supervisors' criteria.
- Qualitative and quantitative capacity to execute the business plan.
- Effective, efficient, controlled and ethical business practices.
- Meet the adequate standards to prevent information security or business continuity incidents.
- Comply with commitments regarding sustainability.

Ambition

- Perception of BNG Bank as a semi-public institution with excellent creditworthiness and an outstanding reputation/ integrity.
- Specialist bank for the public sector with high niche expertise.
- Reliable, sustainable, professional.
- Services at competitive rates.

Profitability

Indicator

Profitability

Qualitative description of risk appetite

- Income and expense trends are relatively stable and in line with each other.
- Amounts of potential / incidental credit losses are limited.

Ambition

- Relatively stable annual results.
- Reasonable returns.

Solvency

Indicator

Capital ratios

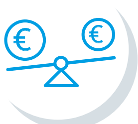
Qualitative description of risk appetite

- Total capital ratio higher than other banks.
- High quality of capital.
- Available capital > required capital plus a buffer.

Ambition

- Very prudent capital adequacy, in line with desired rating profile.

Liquidity



Indicator

Liquidity ratios

Qualitative description of risk appetite

- Always be able to meet obligations in 'business as usual' times, without using buffers.
- Continuous access to money and capital markets.
- The capacity to generate liquidity is sufficient for any time horizon under stressed circumstances.
- Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are used as limits.

Ambition

- Stable presence for public sector.
- Prudent liquidity position, in line with desired rating profile.

In 2021, BNG Bank operated within its financial risk appetite. Although internal sub-limits with regard to (the capitalisation of) market risk were breached in a few cases, these risk positions were soon restored to a level within the limit, or the limit structure was amended after due consideration. In relation to its capital, the bank met the legal supervision requirements, as well as its internal capital objectives during the year. With regard to the non-financial risk profile, BNG Bank operates partly outside its risk appetite. In terms of compliance risk BNG Bank focused in 2021 on the enhancement of its role as gatekeeper for the financial system as well as its own organization for privacy related activities. The operational risk profile has increased due to intensified change initiatives, which serve the bank in the long run, but at the moment lead to a higher workload at parts of the organisation. As a result, the number of operational incidents increased in 2021, though BNG Bank remained within the internal norms for operational incidents in all but one case.

Operational incident: TLTRO

In 2021, there was a significant operational incident. Due to a procedural error, BNG Bank did not comply with a reporting requirement on time to be eligible for the conditional 0.5% bonus rate on the Targeted Longer-Term Refinancing Operation (TLTRO). As a result, the bank has not been granted this discount for the first period (24 June 2020 to 23 June 2021) yet. The discount for this period amounts to EUR 57 million. The bank acknowledges and regrets this error and has taken measures to prevent this from happening again in the future. Through ongoing conversations with the Dutch Central Bank, BNG Bank makes every effort to reach a commensurate solution, one which both acknowledges and respects the purpose of the TLTRO as well as the fact that BNG Bank materially satisfies the conditions for allocation.

Update RAS 2022

The update of the RAS for 2022 resulted in changes regarding linking the RAS and BNG Bank's strategic objectives, integrity, and Environmental, Social and Governance (ESG). With regard to integrity and ESG, this also resulted in changes to the risk definitions. Integrity risks were separated from operational risks. Furthermore, the 2021 risk materiality assessment performed in parallel to this update pointed out that ESG risks (and, specifically, climate and environmental risks) will in the long term become relevant in the context of credit, operational and strategic risk.

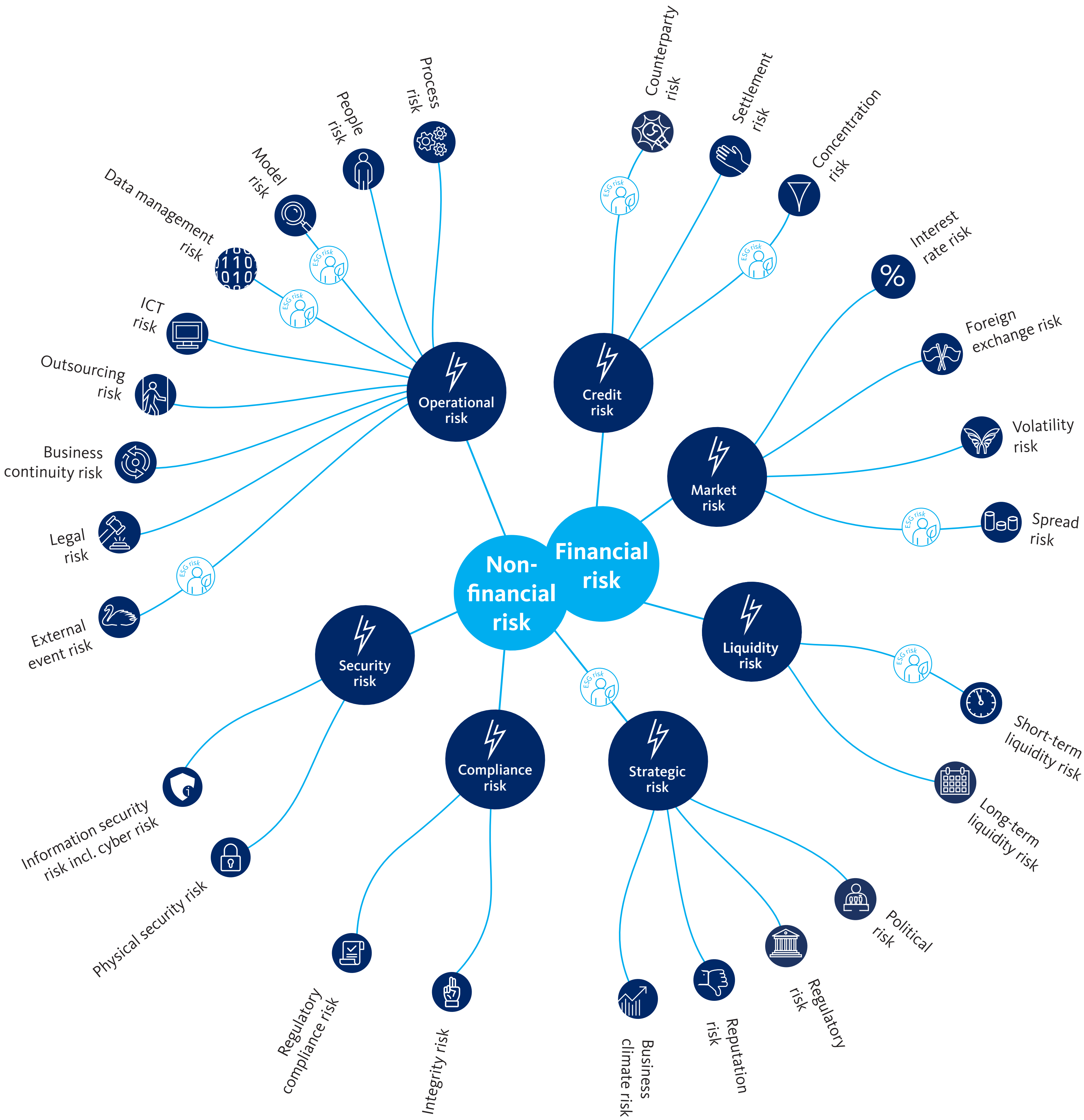
Risk culture

BNG Bank fully recognises the importance of ensuring a proper risk culture within its organisation and endeavours to embed it in the internal control and risk management system. The risk appetite is an important instrument in enhancing risk awareness and instilling the desired risk behaviour.

To increase risk awareness, BNG Bank has extended responsibility for monitoring limits and targets with regard to the risk appetite to the risk-oriented committees. This development is aimed at increasing risk awareness at an operational level, where risks are managed by business or process owners. A new Non-Financial Risk Committee (NFRC) has been established to facilitate more focused and effective management of the bank’s non-financial risks.

Furthermore, a project has been initiated to implement a tool to support the internal control and risk management process in relation to non-financial risks. Although a noticeable improvement with regard to risk awareness has been observed during the past year, the bank aims to further strengthen its risk culture to include the desired level of proactiveness.

Risks


Non-financial risk
Financial risk
Operational risk
Process risk
People risk
Model risk
Data management risk
ICT risk
Outsourcing risk
Business continuity risk
Legal risk
External event risk
Security risk
Information security risk incl. cyber risk
Physical security risk
Compliance risk
Regulatory compliance risk
Integrity risk
Strategic risk
Business climate risk
Reputation risk
Regulatory risk
Political risk
Credit risk
Counterparty risk
Settlement risk
Concentration risk
Market risk
Interest rate risk
Foreign exchange risk
Volatility risk
Spread risk
Liquidity risk
Short-term liquidity risk
Long-term liquidity risk
ESG risk

Specific risks

As is common in risk management BNG bank distinguishes between the categories of financial risks and non-financial risks. Within these categories main risks (level 1) and sub-risks (level 2) have been defined. Only risk types that are relevant to BNG Bank have been included. ESG risk is connected to those traditional risk categories where in the long term material impact from ESG factors is expected. A description per specific risk is given below.

Credit risk

Credit risk is defined as the risk of loss of earnings or capital resulting from a borrower or a counterparty failing to meet its obligations in accordance with the agreed terms. The potential credit risks in relation to BNG Bank are counterparty risk, concentration risk and settlement risk.

Counterparty risk - Counterparty risk is relatively low as a result of BNG Bank's business model. The bank mainly has statutory counterparties and financial counterparties. With regard to statutory counterparties, BNG Bank issues loans, the majority of which (more than 90%) are issued to or guaranteed by government bodies. These loans have a risk weighting of 0%. Consequently, loans granted to or guaranteed by Dutch government authorities are regarded as virtually free of credit risk. Furthermore, lending is subject to initial and periodic credit risk assessments, which comprise a detailed assessment of the creditworthiness of the client concerned. The counterparty risk of financial counterparties is reduced, for example, by making use of collateral agreements based on a daily collateral exchange with financial counterparties.

Concentration risk - Given that BNG Bank focuses on the Dutch public domain, concentration risk is relatively high for the bank and inherent to its business model. Sector-specific policies, annual internal targets and maximum exposure amounts on individual counterparties are applied to manage the concentration risks on sectors and individual parties.

Settlement risk - Settlement risk for BNG Bank is related to the risk of losses to earnings and capital arising from a party failing to comply with the conditions of a contract (or a group of contracts) with another party at the time of settlement. BNG Bank mitigates this risk by setting minimum ratings on its counterparties and limiting exchange amounts.

Developments

In 2021, several noteworthy developments occurred in relation to credit risk, including the COVID-19 pandemic, Brexit, Evergrande, energy sector developments and internal improvements.

COVID-19 pandemic – In 2020, a regulatory standard was published allowing banks to defer interest payments and redemptions for clients significantly impacted by the COVID-19 pandemic. All of these so-called 'moratoria', which were provided to a small number of clients in 2020, ceased on 1 January 2021, without any credit events. No new moratoria were undertaken in 2021. Furthermore, none of BNG Bank's individual clients are experiencing payment difficulties due to the COVID-19 pandemic.

Brexit novations - In 2021, BNG Bank moved most of its derivate positions from UK entities to EU entities. A few positions have not been novated due to a lack of capacity at the counterparty.

Evergrande - In 2021, BNG Bank evaluated its (indirect) exposure to Evergrande, a highly indebted Chinese real estate developer at risk of default. The default of Evergrande is not expected to have a direct material impact on the bank, as it does not have any direct exposures to Evergrande, nor is increased credit risk expected in relation to counterparties with exposure to Evergrande. Furthermore, the bank's clients in the Dutch housing sector do not have connections to the Chinese market.

Energy sector - Approximately 0.96% of the BNG Bank portfolio relates to the energy sector, with funding mainly provided to the biomass, geothermal, solar and wind energy sub-sectors. In 2021, the internal rating for the biomass sub-sector deteriorated quite extensively. This was purely due to technical complications and not related to market developments such as the price of feedstock. For some clients, technical complications resulted in the inability to complete the construction phase. In other cases, production revenues were insufficient to pay interest and/or principal once construction had been completed. These clients may recover financial solidity as the result of insurance payouts or contractors performing repairs to production facilities.

Internal improvements - In 2021, BNG Bank improved its credit risk control processes related to improving insight into clients, early detection of adverse developments, optimising procedures, and credit risk assessments (for both guaranteed and non-guaranteed clients).

Market risk

Market risk is defined as the risk of losses to earnings and capital as a result of market price fluctuations. Market risk comprises interest rate risk, foreign exchange risk, volatility risk and fluctuations in credit and liquidity spreads.

In the second quarter of 2021, the ExCo determined there is no longer appetite for ALCO to take an active interest rate position, meaning that the ALCO position should no longer deviate from the passive benchmark position. The benchmark comprises a ten-year moving average investment in Dutch State bonds, which is equal to (the interest rate component of) the required shareholder return. Furthermore, all interest rate (IRRBB) positions of BNG Bank in the total banking book are either hedged externally or transferred to the 'Treasury Book' portfolio. Therefore, it can be concluded that IRRBB is solely managed in the ‘Treasury book’. The Treasury book should be interpreted as a short-term interest rate position that provides flexibility to clients and reduces hedging costs.

In 2021, BNG bank prepared for the transition from GBP Libor to Sonia and completed adjustments to contracts with financial counterparties to accompany the transition from EONIA to €STR.

Liquidity and refinancing risk

Liquidity and refinancing risk is defined as the risk of losses to earnings and capital due to the possibility, at any given time, that the bank will not be able to fulfil its payment obligations without incurring unacceptable costs or losses. Short-term liquidity risk is the risk that the bank will not be able to attract sufficient funds to meet its payment obligations. Long-term liquidity risk (or refinancing risk) is the risk of the bank being unable to attract sufficient funds with terms that would not jeopardise its continuity.

In 2021, financial markets remained volatile as a consequence of the ongoing COVID-19 situation. To support the financial markets, the European Central Bank (ECB) maintained the policy interest rate at a historically low level and continued its assets purchase programme. In addition, the ECB continued the TLTRO programme, consisting of longer-term loans to banks at favourable costs to encourage them to lend to businesses and consumers in the euro area. By the end of 2021, BNG Bank’s participation in the programme amounted to approximately EUR 18.5 billion (end of 2020: EUR 11 billion). To maintain a comfortable unencumbered liquidity buffer, the amount of pledged collateral at the ECB was increased accordingly.

Despite the market volatility, BNG Bank’s funding position remained solid. The long-term funding volume target, as outlined in the Funding Plan, was partially fulfilled by the bank’s increased participation in the TLTRO programme. The desired average maturity of regular capital markets funding was increased by approximately one year during 2021, in response to the increased average maturity of new lending. Furthermore, the TLTRO was deployed to provide relief on BNG Bank’s short funding programmes, ECP and USCP.

Operational risk

Operational risk is defined as the risk of losses of earnings or capital due to shortcomings of internal processes, people and systems, or as a result of external events. Operational risk comprises process risk, people risk, model risk, ICT risk, data management risk, outsourcing risk, legal risk, business continuity risk and external event risk.

The bank has an ambitious change agenda to support the execution of its strategy. The ongoing COVID-19 pandemic has put increased pressure on the operational capacity of the organisation. To cope with these operational challenges, the bank has increased its capacity and capabilities by hiring temporary staff. As a consequence, the bank has observed an increase in operational risk. This increased operational risk profile materialized in the significant operational incident that had a material financial impact on BNG Bank's results in 2021.

To further enhance the management of its operational risks, BNG Bank has established a Non-Financial Risk Committee (NFRC) represented by two members from the ExCo, the Chief Operating Officer (Chair) and Chief Risk Officer, as well as senior stakeholders from the first and second line of defence. In addition, the bank has initiated a project to implement a tool that will enable more effective and efficient management of its operational, compliance and security risks.

Furthermore, to ensure oversight and focus on the key priorities, the bank has adopted an Integral Portfolio Management methodology and established a Project Management Office (PMO). At the same time, BNG Bank aims to strengthen the knowledge and experience of its employees through training and development.

Security risk
Security risk is defined as the risk of compromising data or ICT systems and/or incurring damage or harm to locations, buildings, equipment, personnel or visitors. It comprises information security risk (including cyber risk) and physical security risk.

BNG Bank's Security department has challenged the IT department, including its IT projects and critical IT changes, regarding security aspects. Furthermore, the Security department monitors the quality of disaster recovery exercises and ethical hack tests.

No major security incidents occurred in 2021. To improve employee security awareness, two quarterly phishing tests were performed in the second half of the year. Furthermore, employees took part in a security training session (as part of BNG Bank's knowledge programme) as well as security awareness presentations. The updated versions of the information security policy and the security awareness programme, including a renewed e-learning management system, are expected to be implemented in 2022.

Following the outbreak of the COVID-19 pandemic, the majority of the bank's employees worked mainly from home during 2021, or were spread across two locations where teams could carry out the bank's core processes. The main outsourcing partner Centric FSS also spread its operating activities for the bank across two locations.

Compliance risk
Compliance risk is defined as the risk of insufficient compliance with or recognition of corporate values, codes of conduct, generally accepted social standards and values, laws, regulations and supervisory requirements. Compliance risk comprises integrity risk and regulatory compliance risk.

In 2021, BNG Bank focused on enhancing its role as gatekeeper to the financial system, with a view to preventing financial crime. Next to developments in the field of Customer Due Diligence (CDD), new tooling on transaction monitoring was implemented, with the first business rules being operational. Further developments are planned for 2022. A specific training programme on CDD and transaction monitoring was launched in the fourth quarter of the year, with the aim to train management and staff on actual insights and knowledge with regard to CDD. Regarding privacy legislation, BNG Bank adopted a new privacy policy, formalising a new organisation for privacy-related activities. The implementation of the policy is in progress.

Strategic risk
Strategic risk is defined as the risk that an organisation's strategic decisions result in losses of earnings and capital due to changes beyond its control with regard to political climate, regulatory developments, reputation, business climate and ESG.

Strategic risks are constantly evolving, and BNG Bank must respond to a wide range of external developments relating to the COVID-19 pandemic, increasing regulatory pressure and ESG, among other factors. Although the financial impact of the energy transition as part of the roadmap to a sustainable society remains unclear, the bank endeavours to give its activities maximum impact. In the execution of the purpose 'Driven by social impact', BNG Bank has adopted five of the UN Sustainable Development Goals (SDGs).

ESG risk

In 2021, BNG Bank renamed ‘Sustainability risk’ as ‘ESG risk’. The new name reflects the need to approach this risk more holistically, given that climate change, developments in ‘clean’ technology and public opinion regarding ESG will have an impact across multiple risk categories. BNG Bank already foresees that ESG factors will in the long term have a material impact on the following risk categories: counterparty and concentration credit risk, spread risk, short-term liquidity risk, data management risk, model risk, external event risk and strategic risk (related to regulatory adjustments and BNG Bank’s reputation and business model).

Incorporating supervisory guidelines regarding ESG into the risk management framework is an important subject for 2022 (including implementing metrics).

INTERVIEW with **FRED REYNAERS** and **TIEMO WESSELING**

"Housing associations can do more for their residents now"

Stability is essential for social housing. Because if it were to falter, then it would impact millions of people. With this in mind, BNG Bank contributes to the contingent liability loan for the Social Housing Guarantee Fund (WSW). "Thanks to this fund, housing associations can offer people a roof over their head when they need it, even when there are financial setbacks."

"The Social Housing sector is our largest client group ," says Tiemo Wesseling, Head of Portfolio Management Treasury at BNG Bank. "That's one reason why we feel an extra responsibility to make a commitment to society. We do so by contributing to the contingent liability loan. This is a special and unique cooperation between the WSW, Aedes as the umbrella organisation for housing associations, and the public housing sector banks, of which BNG Bank is one."

Well-oiled machine

The partnership through the contingent liability loan helps to increase WSW's capital to such an extent that it has become more resilient to financial setbacks. "That may sound simple, but the loan is financially and legally complex," explains Fred Reynaers, Senior Account Manager at BNG Bank. "We're working effectively on it, with many colleagues from different departments, from legal affairs to the back office, and from ICT to risk management. Everyone has to pitch in together like a well-oiled machine to contribute as efficiently as possible to this loan and other types of funding. That prevents money from flowing away unnecessarily and enables us to provide our clients with the most attractive funding possible."

Solid sector

The social significance of housing associations is huge: they own 2.2 million houses that accommodate about 4.5 million Dutch citizens. "BNG Bank wants to finance these associations at low and stable costs," says Wesseling. "To keep costs low, we respond as effectively as possible to change and circumstanc in the financial market. These changes often pose major challenges. An example is the impact of the coronavirus pandemic."
Reynaers explains that the work he and his colleagues do at BNG Bank helps to create a solid housing sector. "Partially due to WSW, housing associations are not only able to provide a roof over people's heads when they need it, but they can also improve houses and make them more sustainable. The fund's impact is huge."

3 FINANCIAL RESULTS AND OUTLOOK

3.1 Financial results

Results and return

During the 2021 reporting year, BNG Bank recorded a net profit of EUR 236 million. This was higher than expected, especially in light of the negative outlook that dominated the end of 2020. This increase is reflected in a return on equity of 5.5%, higher than last year's return on equity (5.2%) and 1.8% higher than the target (3.7%). The bank is pleased with this outcome. One important cause of this relatively high return is the positive result from financial transactions totalling EUR 100 million, compared to 2020's negative result of EUR 17 million.

BNG Bank achieved a net interest income of EUR 407 million. This result is EUR 70 million lower than 2020's result, EUR 57 million of which is owing to a procedural error during a reporting requirement as part of the Targeted Longer-Term Refinancing Operation (TLTRO), which is described elsewhere in this report.

The long-term loan portfolio has continued to develop satisfactorily. BNG Bank has provided EUR 13 billion in new long-term loans, which is EUR 1 billion more than expected. Even without taking the missed conditional bonus rate into account, the net interest income is lower than last year's, as a result of the low interest rate environment. Low interest rates have a negative impact on the interest income on equity invested. In line with last year, the commission income fell by EUR 8 million, totalling EUR 17 million. This is due in part to the lower amount of handling fees billed, in line with the decrease in the turnover subject to solvency requirements. On the other hand, there were fewer opportunities to realise commission income from interest-bearing securities in the liquidity portfolio.

The increase in the result from financial transactions is partly due to the spreads for credit and liquidity risks of interest-bearing securities and loans, which in 2021 were lower than in 2020 as a result of the COVID-19 pandemic. The financial effect of these lower spreads on the revaluation of the financial instruments' credit component for the balance sheet item 'financial assets at fair value' amounted to negative EUR 9 million, which is EUR 18 million higher than it was in 2020. Additionally, because long-term interest rates increased in 2021, the other unrealised market value adjustments came to a net amount of EUR 49 million positive, compared to a net amount of EUR 29 million negative in 2020. The ineffective portion of hedge accounting explains the majority of the increased unrealized market value adjustments. Finally, the sale of interest-bearing securities from the bank's liquidity portfolio largely contributed to a positive realised result of EUR 59 million, which is EUR 20 million higher than in 2020.

BNG Bank's consolidated operating expenses increased by EUR 9 million compared to 2020, coming out to EUR 107 million. This is especially due to the addition of temporary external personnel. The hiring of external staff aims, among other things, to improve our lending processes and strengthen the current IT infrastructure. The bank’s contribution to the European Resolution Fund was lower than expected, owing to a 2016 windfall.

The effective tax burden for 2021 was 32.6%, at a nominal corporate income tax rate of 25%. The high tax burden was a result of the thin capitalisation rule. This dictates that not all expenses are tax deductible. In 2021, the bank levy increased by 50%. In line with 2020, the pay-out on Additional Tier 1 Capital is deducted from the capital. Next to this, in 2021 25% of the EUR 24 million pay-out on Additional Tier 1 Capital is deducted from the taxable result. This leads to a decrease in taxes. The effective tax burden in 2021 is therefore lower than in 2020 (33%).

This year, the bank’s allowance for credit losses increased by EUR 13 million, coming to EUR 232 million. This was predominantly due to impairments for reduced creditworthiness of specific clients, which amounted to a net increase of the allowance for credit loss of EUR 42 million. This increase was, despite COVID-19 concerns, offset by reduced Stage 2 exposures because of an improved economic outlook for 2021. Relative to the balance sheet total, the total expected credit losses remain low, reflecting the high creditworthiness of the bank’s exposures.

The balance sheet total in 2021 was EUR 149 billion, representing a decrease of EUR 11 billion relative to year-end 2020. This is particularly a result of an increase in long-term interest rates. This increase has led to a decrease in the value of loans in portfolio hedge accounting of EUR 7 billion, and a less negative value of the associated derivatives, likewise resulting in a lower collateral obligation of EUR 7 billion.

At year-end 2021, BNG Bank’s equity was EUR 5 billion. In October 2021, the dividend covering 2019 and 2020 was paid following the lapse of the ECB directive not to pay a dividend in 2020, due to uncertainties arising from the COVID-19 pandemic. The bank's risk-weighted solvency ratios remained at a high level: a Common Equity Tier 1 ratio of 32%, and a Tier 1 ratio of 38%. In 2020, these were 33% and 39%, respectively. The decrease is attributable to an increase in the capital weighting of derivative positions due to the implementation of the new Capital Requirements Regulation, which went into effect on June 28, 2021.

Finally, the bank's leverage ratio increased from 3.5% to 10.6%. This is also a result of the new Capital Requirements Regulation. BNG Bank was able to make use of the option to exclude promotional loans from the ratio. Furthermore, due to exceptional market conditions, BNG Bank has the possibility to exclude the ECB balance (whether in whole or in part) from the leverage ratio until the end of March 2022. Based on the methodology used in 2020, the leverage ratio works out to 3.5%.

Lending and funding

At year-end 2021, the long-term loan portfolio amounted to EUR 87 billion. This is a net increase in the portfolio of EUR 1.2 billion, compared to 2020. In 2021, EUR 12.8 billion in new loans were granted, EUR 1.1 billion more than last year. Demand from the residential sector was higher than expected. This is mainly because over EUR 1 billion in WSW-contingent liability loans were granted to strengthen the WSW's equity. More broadly, there was also an increased demand in the social housing sector for loans and advances, and a higher percentage of these were granted.

In the public sector, there was lower credit lending than in 2021. This was due to a combination of high liquidity support from the central government in 2021 related to COVID-19, a lower need for prefinancing than in 2020, higher liquidity due to the sale of equity stakes in Eneco and the limited scope for pursuing investment plans.

EUR 79.2 billion of the long-term loan portfolio is solvency-free. BNG Bank maintains a target of 90% solvency-free exposures in the total loan portfolio. In 2021, this was achieved with a rate of 93%. In addition, the bank aims for a success rate of at least 55% on solvency-free long-term lending to local governments, housing associations and healthcare institutions. In 2021, 69% of loan applications were granted by the bank, and the 55% target was met. The target to close over 60% of solvency-free long-term credits to or guaranteed by municipalities was also met.

BNG Bank raised a total of EUR 11.9 billion in long-term funding through the issuance of bonds in 2021. As part of BNG Bank's renewed sustainability framework for Dutch municipalities, BNG Bank issued EUR 3.7 billion in sustainability bonds based on the UN's Sustainable Development Goals. The pricing, in terms of the credit premium, is similar to that of the last few quarters prior to the outbreak of COVID-19.

Despite BNG Bank's excellent creditworthiness, the bank decided to extend the ECB's funding with a new subscription of EUR 7.5 billion, in order to take advantage of the TLTRO III's favourable conditions. The objective of this scheme is to stimulate the real economy by providing liquidity to specific target groups, such as housing associations and healthcare institutions. By participating in this scheme, BNG Bank can play an important role in passing on these favourable conditions to the client. At year-end, the total outstanding amount of TLTRO financing was EUR 18.5 billion.

Dividend

In accordance with ECB recommendations, BNG Bank waited until 2021 to pay out dividends for the 2019 and 2020 financial years. In total, the dividend proposed at the General Meeting of Shareholders was EUR 172 million. Of this, EUR 71 million was related to the 2019 fiscal year, and EUR 101 million to the 2020 fiscal year. In March 2021, the bank paid out EUR 24 million with the ECB's approval. In October 2021, with the expiration of dividend restrictions, the remaining balance of EUR 148 million was paid out.

A 2021 dividend of EUR 127 million will be proposed at the Annual General Meeting. This is 60% of net income, adjusted for the Additional Tier 1-kapitaal payout. The pay-out percentage has been adjusted for once to compensate for the ungranted conditional bonus rate covering the first period of the TLTRO.

Financial objectives 2021

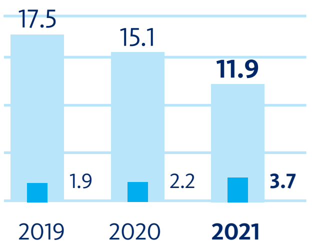
Financial objectives 2021	Results 2021	Results 2020
The return on equity is above the return criterion set by the Ministry of Finance: >3.7%	5.5%	5.2%
Moody's, S&P and Fitch external ratings are in line with the ratings of the Dutch State	Achieved: Moody's: Aaa Standard & Poor's: AAA Fitch: AAA	Achieved: Moody's: Aaa Standard & Poor's: AAA Fitch: AAA
Leverage ratio ≥4.6%	10.6%	3.5%
Common Equity Tier 1 ratio ≥22%	32%	33%
Costs within consolidated budget EUR 106 million	EUR 107 million	EUR 98 million
Share of promotional loan in portfolio ≥90%	93%	93%
Growth of the loan portfolio compared to preceding year	Achieved	Achieved

Selected financial data

	2021	2020	2019	2018	2017
(in millions of euros)					
Balance sheet total	149,057	160,359	149,689	137,509	140,025
Long-term loan portfolio[1]	87,111	85,981	84,184	81,627	80,086
- of which granted to or guaranteed by public authorities	79,225	78,069	76,409	74,475	73,327
Shareholders' equity[2]	4,329	4,364	4,154	4,257	4,220
Hybrid capital	733	733	733	733	733
Equity per share (in euros)	77.74	78.36	74.59	76.45	75.79
Leverage ratio	10.6%[3]	3.5%	3.6%	3.8%	3.5%
Common Equity Tier 1 ratio	32%	33%	32%	32%	30%
Tier 1 ratio	38%	39%	38%	38%	37%
Net profit	236	221	163	337	393
Net profit available to shareholders	211	202	142	318	318
Profit available to shareholders per share (in euros)	3.79	3.62	2.55	5.70	6.73
Proposed dividend	127	101	71	159	141
Dividend as a percentage of consolidated net profit	60%	50%	50%	50%	37,5%
Dividend per share (in euros)	2.28	1.81	1.27	2.85	2.53
SOCIAL					
Number of staff (in FTEs) at year-end	353	330	309	302	303
Absence due to illness	3.0%	2.7%	3.6%	3.3%	3.0%
Funding raised by means of SDG bonds	3,676	2,185	1,934	1,190	1,383
ENVIRONMENT					
CO_2-emissions (total, in tonnes)[4]	178	221	377	453	515
Per FTE (in tonnes)	0.5	0.7	1.2	1.5	1.7

1 As of 2020, the long-term loan portfolio will be reported instead of the total loan portfolio. The figures as of 2017 included in this table relate to the long-term portfolio.
2 Equity excluding hybrid capital.
3 Increase as a result of the new Capital Requirements Directive.
4 For details on the methodology and changes in conversion, see the section of this report titled 'Reporting Principles'.

Funding



(in EUR billions)

€ 11.9 billion

- Capital market funding
- Of which SDG Bonds

AAA

External ratings by Moody's, S&P and Fitch are in line with the ratings of the Dutch State

Common equity Tier 1 ratio

2021	**32%**	50%
2020	33%	50%
2019	32%	50%

Tier 1 ratio

2021	**38%**	50%
2020	39%	50%
2019	38%	50%

Leverage ratio

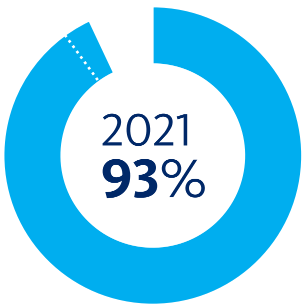
2021	**10.6%**	15%
2020	3.5%	15%
2019	3.6%	15%

Lending

Long-term loans 2021

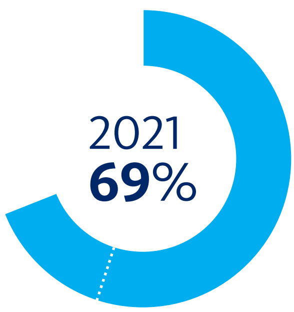
€ 12.8 billion

Share of promotional loans in portfolio



Target 90%

At least 90% of the long-term loans on the balance sheet should qualify



Target ≥55%

Market share of loans and advances, granted to or guaranteed by public authorities ≥55%

Net profit increased in 2021

Net profit 2021

€ 236 million

Net profit 2020

€ 221 million

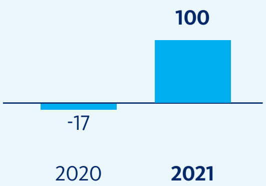
Return on equity

Return on equity is above return criterion of the Ministry of Finance:

Return criterion set by the Ministry of Finance: 3.7%

Factors that influence net profit:

Higher result financial transactions

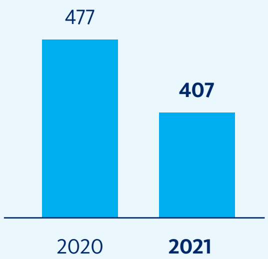


(in EUR million)

Cause

- Higher interest rates and the sale of bonds from the liquidity portfolio

Lower interest results

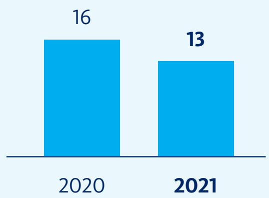


(in EUR million)

Cause

- Ungranted TLTRO conditional bonus rate due to procedural error
- Low interest rate environment

Increase in allowance for credit losses

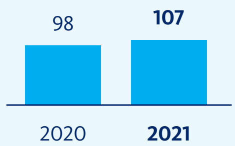


(in EUR million)

Cause

- Incidental allowance for individual items

Increase in operational expenses



(in EUR million)

Cause

- Investments in the credit process and IT organisation

3.2 Financial outlook

In 2022, BNG Bank expects to provide EUR 10.7 billion of long-term loans to clients. To meet promotional lender requirements, at least 90% of the total loan portfolio must be guaranteed by or provided to local of central governments. The bank therefore aims to grant EUR 9.7 billion of solvency-free loans, versus EUR 1 billion in loans subject to solvency requirements.

The expected amount of loans to be granted is EUR 2 billion less than those realised in 2021. EUR 1 billion of this relates to the one-off nature of the provision of WSW-contingent liability loans. BNG Bank foresees a further reduction of these numbers as many public sector clients are highly liquid as a result of COVID-related subsidies.

As in previous years, BNG Bank's funding policy will remain unchanged in 2022, continuing to focus on permanent access to the money and capital markets to provide for the desired maturities and volumes at the lowest possible cost. The bank expects to raise approximately EUR 18 billion in funding in 2022. Of this, EUR 12 billion, funded through the issuance of bonds, will have a maturity of more than three years. This funding may change throughout the year if the bank decides to refinance the EUR 5 billion TLTRO III repayment through other means. In 2022, BNG Bank intends to achieve at least 25% of long-term sustainable funding and plans to issue at least two new SDG bonds.

The bank's operating expenses are estimated at EUR 110 million. This means an increase of EUR 3 million compared to the 2021 budget, which is mainly due to investments in the organisation. These investments involve, among other things, further embedding ESG within the bank and strengthening the IT department.

The tax section of the government’s ‘budget memorandum’ indicates that a higher corporate income tax rate of 25.8% will be implemented. The bank levy, conversely, will be lower, having been increased once in 2021. This means that the bank levy for 2022 should be back to around EUR 35 million. The effect of the increase in the corporate income tax rate from 25% to 25.8% is expected to amount to EUR 12 million.

The contribution to the resolution levy is expected to reach EUR 10 million in 2022. In 2021, the contribution to the resolution levy was limited (EUR 2 million), due to a correction to the 2016 return.

BNG Bank's net interest income in 2022 is expected to be around EUR 390 million. This is EUR 53 million lower than was foreseen for 2021 and is mainly due to the expected termination of the second term of TLTRO. As of 23 June 2022, the one-off positive effect of the interest rate bonus will stop. Furthermore, just as in 2021, the net interest income will remain under pressure due to the lower interest environment.

The total amount of net income is subject to uncertainty because the bank cannot forecast the development of unrealised market value changes. The bank is unable to reliably estimate net profit for 2022. This is the more so with a view to the current war in Ukraine. The social effects, including those for the clients of BNG Bank, cannot yet be estimated sufficiently. It is however expected that the increasing inflation will have a depressing effect on the development of the profit. BNG Bank closely monitors the impact of the war in Ukraine and the related (financial) risks.

INTERVIEW with **SABRINA SABIRAN** and **KAREN KLAVER**

"We hold up a mirror to the bank"

Money laundering, corruption and cybercrime. These are examples of integrity risks that BNG Bank constantly monitors andaddresses when required, both with clients as well as internally. BNG employees working on these topics have a big responsibility. "Only a trustworthy bank can create impact."

Each year, all BNG Bank's departments undergo a Systematic Integrity Risk Analysis (SIRA). "We ensure that the combined results are provided to our senior management," says Karen Klaver, Senior Compliance Officer at BNG Bank. "This way they know exactly which risks are foreseen, and they can take action if required."

Creating awareness

"Banks play an important role in making our society more sustainable," explains Sabrina Sabiran, Compliance Officer at BNG Bank. "Step one in this process involves investigating how your own organisation operates. What kind of operationss do you fund, and what don't you fund? How do you ensure your business operations are cutting-edge? And what mechanisms do you have in place to monitor progress? Meanwhile, organisational culture also contributes to integrity. Through training, awareness and open dialogues, one can positively influence culture. Finally, integrity is stimulated when people in leadership positions set a good example. This helps to show that integrity is actually just as important in practice."

Holding up a mirror

"We want to be transparent about how we deal with integrity risks," Klaver says. "We engage colleagues in conversations on the subject. These discussions also enable us to discover more about the issues that concern our stakeholders. Think, for example, of climate issues, a subject that increasingly matters to more and more clients. We pay close attention to this in our analyses, so that we prevent doing business with organisations that can be linked to undesirable practices. This way we hold up a light to our own organisation. Through our work we challenge our organisation to be and remain trustworthy. Which is one of the conditions of real social impact."

4 GOVERNANCE

4.1 Corporate structure

BNG Bank has acted as an intermediary between the international money and capital markets and the Dutch public domain since 1914. BNG Bank's shareholders are Dutch public authorities exclusively.

Business model

Under Dutch law, BNG Bank is a statutory two-tier public limited company. Founded as Gemeentelijke Credietbank N.V., following several earlier name changes, the formal name of N.V. Bank Nederlandse Gemeenten was changed to BNG Bank N.V. in 2018. The bank provides all of its services under this name. BNG Bank shareholders are Dutch public authorities exclusively. Half of the bank's share capital is held by municipal authorities, provincial authorities and a water board. The other half of the share capital is held by the Dutch State. The bank receives no financial assistance or benefits from the government. BNG Bank is a bank of national systemic importance under the direct supervision of the ECB, and its balance sheet total makes it the fourth-largest bank in the Netherlands. BNG Bank has one branch in The Hague from which the activities are performed, as well as an extra location in Voorburg. There were no significant changes regarding the bank's size, structure, ownership or supply chain in 2021.

History

BNG Bank's history begins in the early 20th century, during a period of major poverty when social issues dominated public discourse. It was during this period that the Vereniging van Nederlandsche Gemeenten (VNG; Association of Dutch Municipalities) was founded, in turn leading to the establishment of the Gemeentelijke Credietbank in 1914. The Gemeentelijke Credietbank provided municipalities with financial support, thereby helping to address and correct social issues. The Gemeentelijke Credietbank is now called BNG Bank, and it serves the same purpose as its predecessor.

Business model

Raising funding through international money and capital markets

BANK

- **4th** largest bank of the Netherlands
- Founded in **1914**
- Significant bank under **ECB** supervision and national systemic bank
- **362** employees

Providing financing to the Dutch public domain at competitive terms and conditions

BNG Bank provides financing to the public domain at competitive terms and conditions and for all maturities, irrespective of the situation on the financial markets. The bank's clients are in the public domain. The majority of the loans the bank provides (more than 90%) are granted to or guaranteed by government bodies. These loans are not subject to solvency requirements and have a risk weighting of 0%. BNG Bank also provides its clients with payment services.

BNG Bank is one of the largest issuers of bonds in the Netherlands. The bank is seen as a safe bank, given that its shareholders consist of Dutch public authorities and that it participates in largely solvency-free lending. BNG Bank has the highest external credit ratings (Moody's: Aaa; Fitch Ratings: AAA; S&P Global: AAA). This provides the bank with a strong funding position on the international money and capital markets. Short- and long-term funding in various currencies can be secured at low prices. This in turn enables BNG Bank to offer its clients low lending rates. None of BNG Bank's products or services have been the subject of questions raised by stakeholders or of public debate.

Governance structure

BNG Bank has a management structure consisting of a Supervisory Board (SB) and an Executive Committee (ExCo). The ExCo started on 1 March, 2021. It consists of five directors, including three statutory directors who jointly form the statutory board. The members of the statutory board are appointed and dismissed by the Supervisory Board. The ExCo constitutes the executive managing body as designated in the Capital Requirements Directive (2013/36/EU). The ExCo is responsible for BNG Bank's day-to-day management, its general state of affairs and the continuity of its business. The ExCo has established a number of committees that advise the ExCo or to which specific decision-making tasks are mandated. A description of the tasks and participants of these committees is published on the website.

The Supervisory Board is the management body in its supervisory function as indicated in the Capital Requirements Directive. The task of the Supervisory Board is to oversee the policy of the ExCo and the general course of business in the undertaking and the associated company. The members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The Supervisory Board has four committees, namely the Audit

Committee, the Risk Committee, the HR Committee and the Remuneration Committee. The committees are preparing the decision-making by the Supervisory Board. In the Report of the Supervisory Board the responsibilities and activities of the committees are described in more detail.

Stakeholders

BNG Bank's principal stakeholders are clients, investors, shareholders and employees. BNG Bank invests in long-term relationships with its stakeholders by talking to them regularly in consultations, regional and sector-based meetings and through surveys. This dialogue with stakeholders provides the bank with an idea of stakeholders' expectations and the value the bank can create for them. Stakeholders' responses are used to improve products, services and processes.

Three times a year, BNG Bank consults with the Client Council, consisting of a permanent committee of approximately ten board members from various client groups. The bank exchanges ideas with them on strategic issues that are important to both the bank and clients. For municipal authority clients, BNG Bank annually organises meetings at which matters of topical interest to municipalities are discussed. BNG Bank also makes substantive contributions to meetings on healthcare, education, municipal and housing association property.

Subsidiaries and participations

BNG Gebiedsontwikkeling B.V. is a BNG Bank subsidiary specialising in risk-based participation in land development, process design and process guidance for municipalities and other public or semi-public organisations. In March 2018, the Supervisory Board of BNG Gebiedsontwikkeling and the Executive Board of BNG Bank jointly decided to hold off on initiating any new activities or projects within BNG Gebiedsontwikkeling, in order to complete the projects within the existing portfolio over the ensuing years.

Hypotheekfonds voor Overheidspersoneel B.V. is the second subsidiary of BNG Bank. Previously, Hypotheekfonds voor Overheidspersoneel existed to issue mortgages for public sector employees. However, beginning in 2013 this product was discontinued and since then no new clients have been accepted. Hypotheekfonds voor Overheidspersoneel has no employees.

BNG Bank maintains a stake in Dataland B.V., a municipal non-profit initiative aimed at promoting broader accessibility to all data concerning registered property currently available in public informational domains belonging to municipalities and other public bodies. BNG Bank has a second participating interest in Data B Mailservice Holding B.V. This company provides print and mail services, as well as services relating to payment transactions, direct marketing and message traffic, to government institutions.

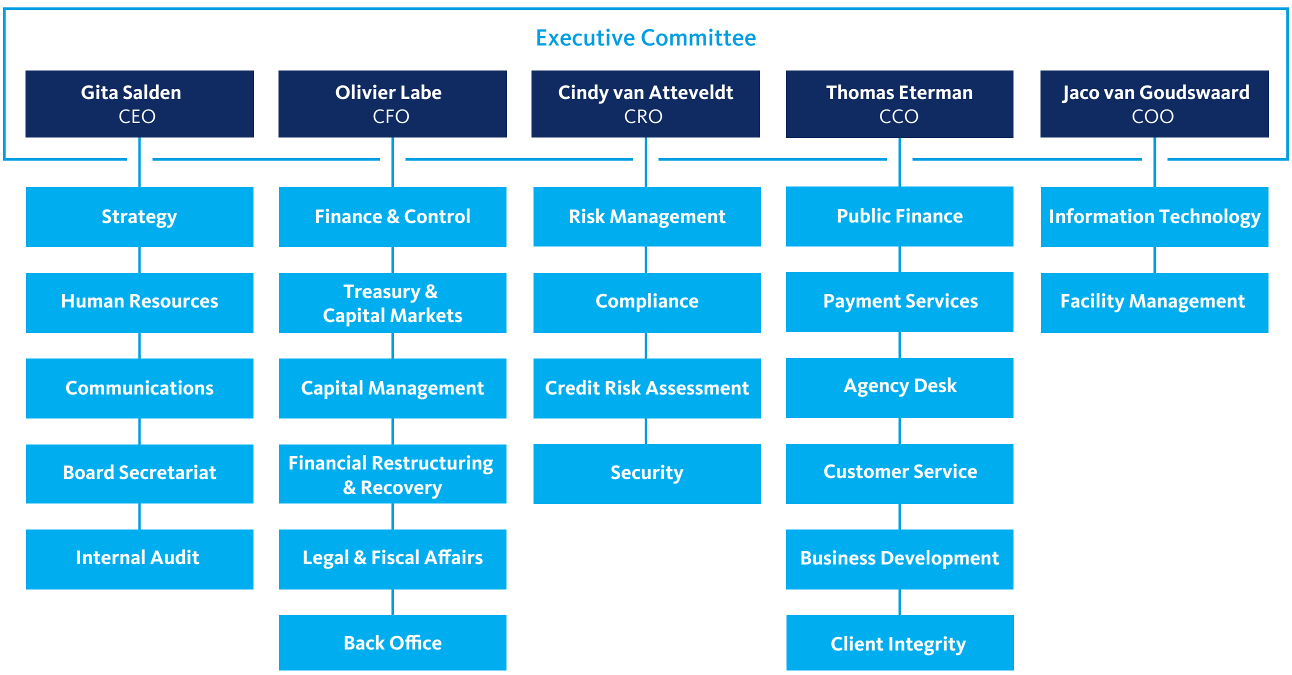
BNG Bank is a member of the Dutch Banking Association (NVB), the European Association of Public Banks (EAPB) and the International Capital Market Association (ICMA).

4.2 Composition of the governing body and the organisation

As of 1 March, 2021, a new top structure was established within BNG Bank, with an Executive Committee (ExCo) consisting of five members.

In addition to the existing roles of CEO, CFO and CRO, the ExCo has two new roles. In line with BNG Bank's updated strategy, and its key themes of 'focus' and 'client partnership', Thomas Eterman has been appointed Chief Commercial Officer to steer client-related commercial activities at board level. Jaco van Goudswaard was appointed Chief Operating Officer to provide sufficient expertise at board level, and to steer information technology – including operational activities, data management and governance. The portfolios have been allocated at the board level in such a way that the Three Lines of Defence model can be fully implemented.

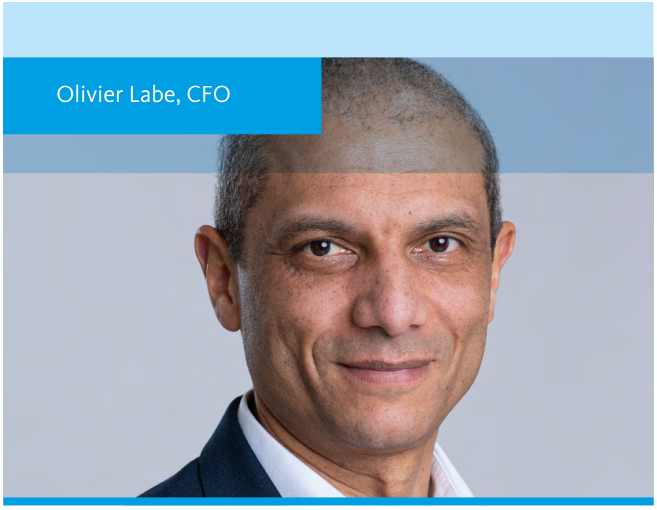
Name	Gender	Date of birth	Nationality	Date of first appointment	Date of reappointment
Gita Salden, CEO	V	1968	NL	01-01-2018	01-01-2022
Olivier Labe, CFO	M	1969	F/NL	01-05-2015	01-05-2019
Cindy van Atteveldt, CRO	V	1972	NL	15-02-2021	-
Thomas Eterman, CCO	M	1976	NL	22-06-2021	-
Jaco van Goudswaard, COO	M	1967	NL	22-06-2021	-



Composition of Executive Committee

Gita Salden, CEO, is responsible for strategy, communication, organisational and personnel policy development, internal audit and the board secretariat, as well as economic research. She is also responsible for general coordination and stakeholder relations.

In relation to her position at BNG Bank, she is a board member of the Dutch Banking Association (NVB). She is also a member of the Administrative Board of the European Association of Public Banks (EAPB) and a member of the Review Committee of the Netherlands Bureau for Economic Policy Analysis (CPB).



Olivier Labe, CFO, is responsible for financial reporting, financial markets and treasury, asset and liability management, capital management, investor relations, and legal and tax matters. He chairs the Capital Committee, the Asset & Liability Committee, the Investment Committee and the Social Impact Advisory Group.

In relation to his position at BNG Bank, he is Chair of the Supervisory Board of the subsidiary Hypotheekfonds voor Overheidspersoneel B.V., Chair of the Supervisory Board of the subsidiary BNG Gebiedsontwikkeling B.V., Chair of the Supervisory Board of the Stichting BNG Duurzaamheidsfonds and member of the Investment Committee BOEI B.V. He is also a member of the Supervisory Board of ASR Vermogensbeheer N.V. He is a member of the Advisory Board of the Faculty of Economics and Business Administration at the University of Amsterdam and is a member of the Steering Committee of the Public Sector Issuer Forum of the International Capital Market Association (ICMA).

Cindy van Atteveldt, CRO

Cindy van Atteveldt-Machielsen, CRO, is responsible for risk management, compliance, credit risk assessment and security. She is Chair of the Credit Committee, the Credit Policy Committee and the Financial Counterparties Committee.

In relation to her position at BNG Bank, she is a member of the Supervisory Affairs Committee of the Dutch Banking Association (NVB), and a member of the Supervisory Board of its subsidiary, Hypotheekfonds voor Overheidspersoneel B.V. She is also a Chair of the Supervisory Board of Data B. Mailservice Holding B.V., and is a member of the Supervisory Board and Chair of the Audit Committee for N.V. Exploitatiemaatschappij De Krim.

Thomas Eterman, CCO

Thomas Eterman, CCO, is responsible for public finance and lending.

In relation to his position at BNG Bank, he is a member of the Supervisory Board of BNG Gebiedsontwikkeling B.V.

Jaco van Goudswaard, COO

Jaco van Goudswaard, COO, is responsible for processing, as well as data and information management. He is Chair of the Non-Financial Risk Committee.

INTERVIEW with **LONNEKE DE WAAL** and **JAN KLAASSENS**

"It's nice to have so many options for social return"

These days, 'social return' doesn't just mean helping people with a distance from the labour market to find a job. At present, it's just as important to work together on the social objectives of both governments and companies. "BNG Bank is always looking for creative opportunities to help society move forward."

"We provide banking services for municipalities," says Lonneke de Waal. As Senior Account Manager at BNG Bank, her responsibilities include tendering processes involving larger municipalities. "The municipalities regularly request us to invest a small portion – usually five percent – of the money received for the services back into social causes. As a bank that stands for social impact, we're happy to comply."

New opportunities

"This is the way we've worked for decades," explains Jan Klaassens, Social Return on Investment (SROI) advisor at BNG Bank. "I'm employed at this bank for 41 years and despite many changes throughout the years, we've always stood up for social causes. I appreciate this." Over the years, the definition of 'social return' has become increasingly broad, he explains. "It's no longer just about employment rates, but also about supporting social initiatives as a contractor. We're happy to do it, because there isn't always a match between people looking for jobs and the ones we currently have available. So it's nice to have more social return options."

Sustainable advertising columns

"We're always looking for new opportunities, and we're creative in how we operate. We look out for different ways to contribute in terms of social return," says account manager De Waal.
"For example, we go to elementary schools with our 'Banking for the Classroom' training project, which in a playfully way teaches children how to handle money. We also invest in advertising columns that generate sustainable energy, made by people with limited access to the labour market. And we work together with the Everyday Heroes Foundation to link job seekers with employers." According to Klaassens, "there are various options of approaching the goal we aim to achieve together with the municipalities which is creating as much as possible social impact."

5 CORPORATE GOVERNANCE STATEMENT

The internal risk management and control systems are an important point of attention within BNG Bank. The Risk Governance Framework forms the basis for all risk management activities at BNG Bank. It clarifies the principles behind the internal control and risk management system. The Risk Appetite Statement describes the risks that the bank wishes to accept in order to achieve its objectives. The various risks posed by the bank's activities are discussed each year in BNG Bank's annual report. In their 'In Control Statement' to the Executive Committee, the managing directors and department heads report directly to the Executive Committee, focusing on risk management as it relates to the bank's risk appetite. In the annual plans, they also explain how they aim to fulfil their responsibility of meeting the bank's risk appetite. This overall framework is closely linked to the bank's Capital Management Policy, which is periodically reviewed and discussed with the regulator.

Audits by the Internal Audit Department (IAD) focus on independently determining the structure and function of the internal risk management and control systems. The external auditor audits the financial statements and evaluates internal control in respect of the financial reporting insofar as relevant to an efficient and effective audit of the financial statements. The findings of the IAD and the external auditor are reported to the Executive Committee in the management letter, and to the Supervisory Board in the auditor's report. The head of the IAD and the external auditor attend the meetings of both the Audit Committee and the Supervisory Board where the financial statements are discussed.

The annual report provides sufficient insight into shortcomings in the operation of BNG Bank's internal risk management and control systems. The aforementioned systems provide a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. These systems are of course incapable of providing absolute certainty about the achievement of the company's objectives and the prevention of all errors, as well as instances of fraud and non-compliance with laws and regulations. A detailed explanation is provided in the 'Risk' section of the Annual Accounts. The consolidated financial statements are prepared on the basis of the going-concern principle. No material risks or uncertainties were identified that could hinder continuity for a period of twelve months following the preparation of the report.

Declaration of responsibility

In the opinion of the statutory board, the financial statements provide a true and fair view of the assets, liabilities, financial position and results of BNG Bank and the subsidiaries included in the consolidation. The annual report provides a true and fair view of the bank's position, and the current balance sheet reflects performance during the reporting year and the expected developments of BNG Bank and its consolidated subsidiaries. Figures belonging to these subsidiaries have been included in the consolidated financial statements. The annual report also describes the material risks facing BNG Bank.

The Hague, 18 March 2022

Statutory board
Gita Salden (CEO)
Olivier Labe (CFO)
Cindy van Atteveldt-Machielsen (CRO)

INTERVIEW with **ANNA DUIJSINGS** and **DERK JAN POSTEMA**

"Our position enables us to bring different groups together"

Do you create enough social impact as a company? To check whether this is the case, you need to find out which needs exist in society – by starting with your own clients. The Supervisory Board of BNG Bank hears about these needs through our Permanent Education programme. "Client stories frequently serve as real eye-openers."

"The members of our Supervisory Board believe in keeping their knowledge and experience updated," explains Anna Duijsings, secretary at BNG Bank. "To make that possible, our bank offers a 'Permanent Education' programme. A recurring part of this programme is a session with clients, so Supervisory Board members can gain a better understanding of what's going on with clients, and what their needs are. This year we focused on clients from the healthcare sector, including hospitals, nursing homes and mental health institutions."

Common thread

"It was a unique opportunity to hear all these different perspectives," says Derk Jan Postema, sector specialist for healthcare at BNG Bank. "Clients took us through the topics they're concerned about. This helps us to understand what they perceive as opportunities, as well as the issues they see as threats and challenges – and how we can help. We quickly identified a common thread across their stories. For starters, we learned that healthcare institutions are facing major employment shortages. And that they would like to make their utilities more sustainable. This latter issue is very important to them, but without additional financial support they have no choice but to direct their budgets to their core business of helping patients. This was a real eye-opener."

Connecting factor

"It's through dialogue with clients that we can learn how to achieve better social impact as a bank," says Duijsings. "For example, we now understand that the mass of regulations and legislation really gets in the way of healthcare providers. Of course, as a bank we're not responsible for creating legislation. But as one of the largest financiers in the sector, we do play an important role. Clients indicated that it would be helpful them if we pitch in to voice these concerns, especially to the government."
Postema agrees: "Our clients include municipalities, housing associations and healthcare institutions – we're active everywhere. This makes us uniquely suited to bring different groups together. And to work collectively on solutions."

6 REPORT OF THE SUPERVISORY BOARD

6.1 Foreword

It is with pleasure that I take the floor here for the first time in my role as Chair of the Supervisory Board. As of the General Meeting of Shareholders (AGM) 2021, I have taken over the chairpersonship from Marjanne Sint, who has done an excellent job fulfilling that role for six years. 2021 was a special year for BNG Bank, and therefore a special year to begin as chairperson of the Supervisory Board.

First of the things that made the year special, was the continuing impact of the COVID-19 pandemic. In addition to the impact on clients, as well as on commercial dynamics as a result of ECB funding operations, we continued to work through lockdowns and observe the government's recommendation to work from home for much of the year. Just as in 2020, employees were spread out across our office in The Hague, as well as at a secondary, back-up location, and many also worked from home. On behalf of the entire Supervisory Board, I would like to express my great appreciation for the way in which BNG Bank employees continued to carry out their work with great dedication and flexibility under challenging circumstances.

But 2021 was a unique year for BNG Bank in other respects, too. It was the first year of implementation for the updated strategy 'Our Road to Impact'. Over the course of the year, we worked on reinforcing central banking procedures, increasing the focus across our activities and strengthening the organisation. Although the bank is not quite there yet, important steps have been taken in areas such as client integrity and privacy. We have also delivered on BNG Bank's core commitment to social impact. The bank's solvency, liquidity and profitability remain strong. This enables us to continue fulfilling our role as an important financier of the public domain.

As part of 'Our Road to Impact', the bank's top structure has also changed. Instead of a three-member Executive Board, an Executive Committee (ExCo) was established to act as the executive managing body from March 2021 onwards. This Executive Committee consists of five members, with the Chief Commercial Officer (CCO) and Chief Operating Officer (COO) as new positions. In 2021, Cindy van Atteveldt took office as Chief Risk Officer (CRO), Thomas Eterman as CCO and Jaco van Goudswaard as COO. It is the view of the Supervisory Board that their arrival completes the formation of the ExCo, adding the knowledge and experience necessary to carry the bank forward in the coming years. The Supervisory Board also reappointed Gita Salden as CEO as of 1 January 2022. It is with confidence that the Supervisory Board looks forward to her continued leadership, alongside the other members of the ExCo, as the bank continues to implement 'Our Road to Impact'.

Not only does the ExCo have new members, but in 2021 the composition of the Supervisory Board changed, too. At the end of 2021, Jantine Kriens and Marjanne Sint stepped down. I would like to take this opportunity to thank them once again for their important contributions to the development of BNG Bank during their years as members of the

Supervisory Board. At the same meeting, three new members of the Supervisory Board were appointed: Karin Bergstein, Leonard Geluk and Femke de Vries. As we have already seen, with their diversity of experience they bring great added value to the Supervisory Board. The change in the Supervisory Board’s composition has created a new dynamic in which we have had the opportunity to openly reflect on the formation of the team and how the board goes about fulfilling its various roles.

BNG Bank will continue to develop in 2022. We are continuing on the path we embarked on in 2021, and further steps will be taken in the implementation of 'Our Road to Impact’. As part of this effort, emphasis will shift from internal operations to our clients. On behalf of the Supervisory Board, I wish the ExCo and all the bank's employees every success in making 2022 another great year for BNG Bank.

On behalf of the Supervisory Board,

Huub Arendse
Chair of the Supervisory Board

The Hague, 18 maart 2022

6.2 Composition of the Supervisory Board and committees

The composition of the Supervisory Board as of December 31, 2021 is shown in the table below. In accordance with the Articles of Association and the Corporate Governance Code, Supervisory Board members are eligible for reappointment for a period of four years in the first General Meeting of Shareholders to be held after a period of four years has elapsed since the first appointment. Supervisory Board members may then, under special circumstances, be reappointed for a two year term of office, which may be extended for a maximum period of two years.

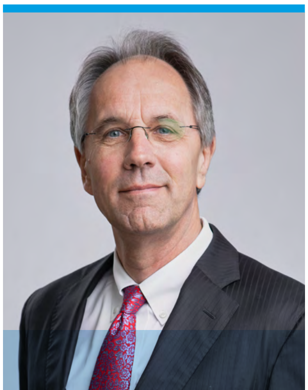
As of the AGM 2021, Marjanne Sint stepped down as Chair of the Supervisory Board and Jantine Kriens stepped down as a member. At the same meeting, three new members of the Supervisory Board were appointed: Karin Bergstein, Leonard Geluk and Femke de Vries. The Supervisory Board has elected sitting member Huub Arendse as its new chairman. With the appointment of three new members, the SB will temporarily consist of eight members. As of the 2022 AGM, Kees Beuving will step down as a member of the Supervisory Board after two terms. This will reduce the Board's size to seven members.

All Supervisory Board members have ample knowledge of and experience with the relevant business units of BNG Bank, the markets within which the bank operates and the specific characteristics of public stakeholders. The collective knowledge of the Supervisory Board is described in the Supervisory Board's succession plan and in its job profile. A register containing all the additional positions held by Supervisory Board members is available on the website. All the Supervisory Board members are independent within the meaning of the relevant best practice provisions of the Corporate Governance Code.

The four Supervisory Board committees, the Audit Committee, the Risk Committee, the HR Committee and the Remuneration Committee, prepare the decision-making by the Supervisory Board. The responsibilities and activities of the committees are described in further detail in the paragraph 'Activities of the Supervisory Board committees'. A total of seven regular Supervisory Board meetings were held in 2021. Besides, a number of extraordinary meetings took place. The attendance rate for regular Supervisory Board meetings in 2021 was 96% (2020: 95%). In addition, the Audit Committee met four times, the Risk Committee met five times, the HR Committee met four times and the Remuneration Committee met two times. The attendance rate at the meetings of the committees in 2021 was 98% (2020: 93%). The attendance rate for all meetings in 2021 was 97% (2020: 95%).

Composition of the Supervisory Board and Committees

Name	Gender	Year of birth	Nationality	Date of first appointment	End of first term	End of second term
Huub Arendse Chair	M	1958	NL	18-04-2019	2023	
Jan van Rutte Vice-Chair	M	1950	NL	23-11-2015		2024
Karin Bergstein	F	1967	NL	22-04-2021	2025	
Kees Beuving	M	1951	NL	24-04-2014		2022
Johan Conijn	M	1950	NL	01-01-2016		2024
Marlies van Elst	F	1966	NL	19-04-2018	2022	
Leonard Geluk	M	1970	NL	22-4-2021	2025	
Femke de Vries	F	1972	NL	22-4-2021	2025	



Huub Arendse, Chair

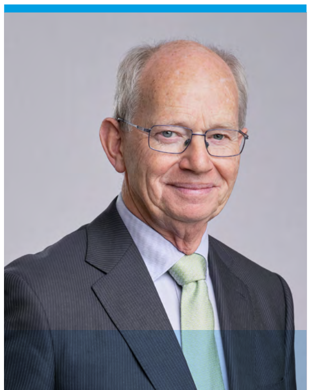
Huub Arendse was CFO and member of the Executive Board of Achmea. He is Chair of the Supervisory Board of Achmea Bank.

Jan van Rutte, Vice-Chair

Jan van Rutte was CFO in the Executive Board of ABN AMRO Group. He is member of the Supervisory Board of PGGM.

Karin Bergstein

Karin Bergstein was member of the Executive Board of a.s.r. She is member of the Supervisory Board of Van Lanschot Kempen.

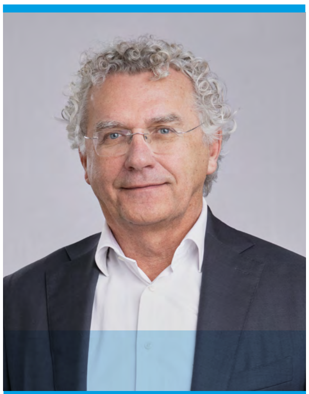


Kees Beuving

Kees Beuving was Chair of the Executive Board of Friesland Bank.

Composition of the Supervisory Board Committees and attendance

Supervisory Board member	Supervisory Board meetings	Audit Committee meetings	Risk Committee meetings	HR Committee meetings	Remuneration Committee meetings	%
Marjanne Sint until 22-4-2021	100%		100%		100%	100%
Huub Arendse	100%	100%	100%[1]	100%		100%
Karin Bergstein as of 22-4-2021	100%	100%				100%
Kees Beuving	89%	100%		100%	100%	95%
Johan Conijn	100%		100%			100%
Marlies van Elst	100%		100%			100%
Leonard Geluk as of 22-4-2021	86%			67%		80%
Jantine Kriens until 22-4-2021	100%				100%	100%
Jan van Rutte	100%	100%				100%
Femke de Vries as of 22-4-2021	86%		100%			91%
Total	**96%**	**100%**	**100%**	**93%**	**100%**	**97%**



Johan Conijn

Johan Conijn is director and senior advisor of housing corporations at Finance Ideas. He is member of the Investment Committee of Amvest Residential Core Fund.

Marlies van Elst

Marlies van Elst was COO of ING Bank in Belgium and Poland and member of the Operations & IT Management Team of ING Group. She is member of the Supervisory Board of Bank Mendes Gans.

Leonard Geluk

Leonard Geluk is general director of the Association of Netherlands Municipalities (VNG). Formerly Councilor Youth & Education at the municipality of Rotterdam.

Femke de Vries

Femke de Vries is managing partner at &samhoud consultancy and member of the board of &samhoud groep. In addition she is professor by special appointment of Supervision at the University of Groningen.

[1] Risk Committee member until 22-4-2021

6.3 Activities of the Supervisory Board

The Supervisory Board monitors the policy of the Executive Committee (ExCo), the way in which the latter implements the strategy and oversees general affairs within the company.

The Supervisory Board also monitors the effectiveness of the internal risk management and control systems, as well as the integrity and quality of financial reporting. Depending on the topic of discussion, the Supervisory Board may be variously called to act as a sparring partner, or to fulfil either a supervisory role or an employer role.

Meetings and topics of discussion

The Supervisory Board met nine times in 2021. The regular meetings of the Supervisory Board are attended by the members of the ExCo and, upon invitation, by the external auditor. Prior to meetings of the Supervisory Board, a 'private session' is held in which only members of the Supervisory Board may participate. During meetings of the Supervisory Board, written and oral reports are presented covering committee meetings that are held one week prior to regular Supervisory Board meetings. Documents and other materials belonging to the committees that are relevant to the Supervisory Board are also included on the agenda at meetings of the Supervisory Board. Where the approval of the Supervisory Board is required, the committee concerned gives advice to the Supervisory Board.

In 2021, the ‘Our Road to Impact’ strategy and related activities were a major presence on the Supervisory Board's agenda. Following the adoption of the Bank's updated purpose and strategy in 2020, throughout 2021 the Supervisory Board was kept up-to-date about the strategy implementation through quarterly reports. In response, the Supervisory Board raised necessary questions about how the updated strategy was being monitored and steered. The Supervisory Board noted the importance of a critical path in achieving its ambitions, and discussed with the ExCo how long-term ambitions can be best translated into shorter-term objectives. The Supervisory Board also addressed the strategy's rollout across various levels within the organisation. During conversations with the ExCo, the Supervisory Board inquired about potential ’show stoppers’, as well as how cost-control initiatives and other strategic ambitions might correspond with one another. In 2022, the Supervisory Board will continue to closely monitor the continued implementation of the strategy.

Throughout the year, the Supervisory Board paid particular attention to projects related to 'operational excellence', a key strategic theme, which includes projects related to the credit process, transaction monitoring and client integrity. The Supervisory Board stresses the importance of ensuring these processes remain in place, and regularly discusses both the need for rapid movement on these projects and the ways in which projects can be carried out with emphasis on risk and quality. The Supervisory Board continues to closely monitor the progress of these projects.

As a result of the strategy update, a new top structure with an ExCo was introduced in 2021. The Supervisory Board was involved in the recruitment and selection of the new ExCo members. Together, the Supervisory Board and the ExCo discussed team composition and the role the ExCo plays in the roll-out of the updated strategy within BNG Bank. The Supervisory Board and the ExCo also discussed other organisational changes within BNG Bank, such as the planned establishment of an ESG team and the continued development of the IT organisation. During IT discussions, developments at Centric FSS, the bank's major outsourcing partner, were regularly discussed.

Throughout the year, the Supervisory Board was kept up to date about ongoing results, as well as commercial developments. This included discussion of BNG Bank's market shares in the various sectors the bank serves. Price dynamics in response to the TLTRO, and the impact these had on margins, were also considered. The Supervisory Board also discussed with the ExCo the procedural error that ultimately meant that the conditional bonus rate for the first TLTRO period was not granted. Along with the ExCo, the Supervisory Board regrets the error, but believes that the consequences are disproportionate to the gravity of the error. Together with the ExCo, the Supervisory Board reflected on the factors that led to the error in the first place and the measures taken to prevent it from happening again.

Finally, the Supervisory Board discussed and approved the Annual Report 2020, and discussed matters arising from external supervision, capital and liquidity planning and dividend policy. The latter specifically addressed the 2019 and 2020 dividend, which, due to previous, urgent ECB recommendations in response to the COVID-19 pandemic, could not be paid until October 2021.

Permanent education

Each year, members of the Supervisory Board and Executive Board follow a permanent education (PE) programme. Five PE sessions were held in 2021. The sessions covered the Money Laundering and Terrorist Financing Prevention Act and the bank's gatekeeper role, as well as developments in ESG legislation and regulations. In addition, two sessions were devoted to the new methodology BNG Bank will use to measure social impact. The Supervisory Board also spoke with a number of clients from the healthcare sector about developments, threats and opportunities in the sector.

Evaluation of the Supervisory Board and the Executive Committee

In accordance with the Banking Code and the Dutch Corporate Governance Code, the Supervisory Board must discuss its own performance once per year. In 2020, under the supervision of an external party, the Supervisory Board extensively reviewed the results of the 2019 evaluation. In light of these discussions, as well as the changes to the Supervisory Board's composition in 2021, no separate evaluation was conducted in 2020. In 2021, the Supervisory Board – with its new composition – reflected on its role in private sessions. Supervisory Board members also completed a survey at the end of 2021, reflecting on the performance of the Supervisory Board and its committees. Supplemented by information gathered during telephone interviews conducted by the Vice Chair, this led to a report by the vice chairperson, with an overall positive view and some points of attention. In view of the introduction of the ExCo and the new composition of the Supervisory Board, board members also discussed with each other how best to define the Supervisory Board's specific capacities as supervisor, employer and sparring partner.

The Supervisory Board is also responsible for the evaluation of the functioning of the ExCo and the assessment of the statutory members of the ExCo. For the latter, individual goals are discussed with the ExCo members. In 2021, all ExCo members took part in a 360 degree feedback round.

Contact with stakeholders

The Supervisory Board maintains contact with other stakeholders including the Works Council, clients, shareholders, the external regulator, the external auditor and management, as well as other parties. Members of the Supervisory Board attended three consultative meetings with the Works Council in 2021. In addition, a thematic meeting was held during which the Works Council, the Supervisory Board and the ExCo jointly discussed the changes BNG Bank is currently undergoing, following the introduction of the updated strategy. The Supervisory Board has found these conversations with the Works Council to be constructive, and appreciates the transparent and effective communication between the Supervisory Board, ExCo and the Works Council.

Contact with the shareholders is conducted in part via the General Meeting of Shareholders, which the Supervisory Board oversees. The Annual General Meeting of Shareholders was held on 22 April 2021. The items on the agenda concerned the approval of the financial statements for 2020, the approval of the proposed dividend, the grant of discharge to the members of the Executive Board and Supervisory Board members for their duties during the 2020 financial year, the remuneration policy for the members of the Supervisory Board and the appointment of new Supervisory Board members Karin Bergstein, Leonard Geluk and Femke de Vries. The AGM agreed to all items scheduled for approval. Discussions were also held on a quarterly basis between the Ministry of Finance, BNG Bank's primary shareholder, and the Chair of the Supervisory Board. The chair of the Supervisory Board holds an annual consultation with the external regulator. Members of the Supervisory Board also keep in touch with managers of BNG Bank. Where relevant, managers attend to specific agenda items at the meetings of the Supervisory Board and the Committees, and/or give presentations. Lastly, the Supervisory Board maintains regular contact with the external auditor as well as the Internal Audit Department (IAD), while the Supervisory Board also oversees the performance of the external auditor. In the Supervisory Board's opinion, in 2021 no situations involving conflicting interests on the part of board members, Supervisory Board members, shareholders and/or the external auditor arose that were of material significance to the company and/or the relevant board members, Supervisory Board members, shareholders and/or the external auditor.

6.4 Activities of the Supervisory Board committees

The four Supervisory Board committees support the Supervisory Board in monitoring the activities of the Executive Committee.

The committees prepare the Supervisory Board's decision-making policy and advise the Supervisory Board on various topics. Each committee has its own set of rules and regulations. In principle, the committees meet one week before the regular meeting of the Supervisory Board.

Audit Committee

The Audit Committee prepares decision-making by the Supervisory Board on financial reports, internal control systems, the internal audit and the external auditor for the. In addition to Audit Committee members, its meetings are also attended by the CEO and CFO, the head of the Internal Audit Department (IAD), the head of Finance & Control and the external auditor.

The Chair of the Supervisory Board is also a member of the Audit Committee. Besides, meetings of the Audit Committee are always attended by the Chair of the Risk Committee. The Audit Committee holds a private session with the external auditor and the head of the IAD prior to some of the meetings. The Chair of the Audit Committee meets separately with the head of IAD four times a year, around the time of the Audit Committee meetings.

The Audit Committee met four times in 2021. During the year, the Committee was kept up-to-date through quarterly reports on key figures, developments and forecasts concerning clients, profitability, solvency, capital, liquidity and funding. In 2021, new finance and commerce dashboards were introduced, updating the way quarterly reports were presented. The Audit Committee is pleased with this new reporting format, but will continue to communicate with the ExCo to ensure the reports meet the supervisory needs of the Audit Committee and the Supervisory Board.

In response to the reports, the Audit Committee raised questions about the evolution of the margin over the short and long term. Price dynamics following the TLTRO were discussed within this context. Additionally, the Audit Committee considered the rate of success across the various sectors. The development of allowances was also discussed. The Audit Committee discussed cost development within BNG Bank, and was informed about the introduction of 'zero-based budgeting'. The initiatives relating to the part of the loan portfolio designated as 'legacy' (in connection with the updated strategy) were also discussed.

Financial statements and the 2020 Annual Report were key items on the agenda. Following up on this, the Audit Committee discussed the quality of the financial results. The impact of the macroeconomic circumstances of COVID-19 on model-based provisions was also discussed. The Audit Committee gave the Supervisory Board a positive recommendation for the approval of the financial statements. A positive recommendation was also given on proposal to make a dividend of 50% of net profit in 2020 available for distribution . In October 2021, a dividend was paid out in line with the ECB's recommendation surrounding dividend payments in connection with COVID-19. In this respect, the Audit Committee discussed the accounting treatment of the dividend.

The external auditor provided the Audit Committee with an explanation of the board report prepared for the 2020 financial statements. This included the 'key audit matters', specifically impairment of loans and receivables, the system of hedge accounting used by BNG Bank and the valuation of financial instruments. Additionally, throughout 2021 the principal findings of the IAD, as well as the progress of the implementation of the IAD's findings, were regularly discussed. During these discussions, the Audit Committee asked questions about the number of unresolved findings and changes to the IAD's approach.

Risk Committee

The Risk Committee supports the Supervisory Board in supervising the activities of the ExCo with regard to risk management and the management of the various risks and corresponding risk areas. In addition to the members of the Risk Committee, the CEO and CRO, the head of IAD, the head of Risk Management and the head of Compliance participate in the meetings of the Risk Committee. The Chair of the Risk Committee meets with the head of Risk Management at least once a year, and at least once a year with the head of Compliance – in addition to the consultations that take place surrounding Risk Committee meetings.

The Risk Committee met five times during the financial year. The Risk Committee periodically discusses the effectiveness of the structure and operations of the internal risk management systems aimed at controlling financial and non-financial risks. Each quarter, the Committee receives a risk report in which the Risk Management department reports on the monitoring of the bank's risk profile in relation to the risk appetite approved by the Supervisory Board. The reports discuss the status of the credit, market and liquidity-based risks, as well as on operational and strategic risks.

In response to the risk reports, the Risk Committee discussed credit risk, focusing on the revision process and the activities of the first and second lines. Operational risk was also discussed. Incident analyses were covered, as well as process risk as it relates to both projects and 'people risk' within a changing organisation. The Risk Committee also discussed developments relating to ESG risk, specifically climate and environmental risk. Throughout 2021, the Risk Committee regularly discussed IT security, partly in response to incidents at other banks.

The Risk Committee receives a quarterly compliance report. This report examines integrity risks, compliance with existing legislation and regulations and the preparation for and implementation of new legislation and regulations. In response to these reports, the Risk Committee discussed the results of the Systematic Integrity Risk Analysis (SIRA). Topics discussed included the privacy organisation and projects in the field of client integrity. Also discussed were monitoring assurance, implementation of ESG legislation and regulations and the initiatives taken to this end. Developments in the areas of transaction monitoring and client integrity were also discussed. Regarding client integrity, the Risk Committee addressed the way tax integrity is taken into account as a key topic.

The Risk Committee discussed the continuing development of the compliance function, as well as the Compliance Management Framework (CMF), which aims to provide more oversight during the implementation of laws and regulations. The Risk Committee was updated on the acquisition and implementation of tools for the systematic recording of non-financial risks and associated controls and monitoring activities. In 2021, the Risk Committee also discussed the root cause analyses of a number of incidents, including the TLTRO incident, and the risk analysis of restrained remuneration policies.

The Risk Committee also prepared the annual adoption of the Risk Appetite Statement (RAS) by the Supervisory Board. Each year, the Risk Committee also discusses the updated Recovery Plan and the outcome of the Supervisory Review and Evaluation Process (SREP). Part of the SREP involves the assessment of risks relating to capital (ICAAP) and liquidity (ILAAP). The documents drawn up as part of this process form the basis of the regulator's assessment of the capital requirement.

HR Committee

The HR Committee's responsibilities include the recruitment and selection of members of the Supervisory Board and statutory members of the ExCo, the periodic evaluation of the performance of the Supervisory Board and the ExCo as a whole and the assessment of the performance of individual statutory members of the Supervisory Board and ExCo. The HR Committee also supervises BNG Bank's broader HR policy. The HR Committee prepares the Supervisory Board's decision-making to this end, thereby supporting the Supervisory Board in its role as employer. The CEO and the head of HR participate in HR Committee meetings alongside the members of the HR Committee.

The HR Committee met five times in 2021. Important topics covered during meetings included the filling of vacancies for the ExCo and subsequent team formation within the ExCo. An HR Dashboard was developed in 2021 to provide greater insight into personnel developments. In this respect, diversity and human resources policies were discussed. Additionally, the HR Committee discussed the activities undertaken as part of the strategic theme of 'strengthening the organisation'. To this end, the HR Committee was informed about strategic personnel planning, and the position of BNG Bank on the labour market was also discussed. The results of employee surveys were also covered, including the impact of working from home due to COVID-19 measures. The HR Committee was pleased to note that, despite challenging circumstances, the scores from the employee surveys were good. Finally, consideration was also given to the leadership competencies formulated by the ExCo, and the exemplary leadership behaviour that has followed on from them, with the HR Committee speaking of the importance of encouraging this shift across all levels of the organisation.

Remuneration Committee

The Remuneration Committee is responsible for preparing the decisions by the Supervisory Board concerning the remuneration of the Supervisory Board, the ExCo and senior management, including decisions that have consequences for risk management within the company. As is the case for the activities of the HR Committee, this responsibility primarily centres around the ‘employer’ role of the Supervisory Board. Besides by members of the Remuneration Committee, meetings are also attended by the CEO and the head of HR.

The Remuneration Committee met twice in 2021. The Remuneration Committee discussed the remuneration policy of the Supervisory Board. This policy needed to be updated in connection with the expiration date of the existing scheme. The Remuneration Committee positively recommended the Supervisory Board to approve the updated policy, which in essence serves as a continuation of the existing scheme. The shareholders approved the Supervisory Board's remuneration policy at the 2021 AGM. The Remuneration Committee also discussed the ExCo's remuneration policy, to which additions were made regarding the introduction of the ExCo.

In addition, the 2020 implementation of the remuneration policy for all levels within the bank was discussed. Particular attention was paid to the remuneration of employees – or 'Identified Staff' – capable of impacting the bank's risk profile. The Committee took note of the outcome of the annual risk analysis of the controlled remuneration policy. The Remuneration Committee also issued a positive recommendation to the Supervisory Board regarding the payment of deferred portions of variable remuneration awarded in the past to executive directors. For members of the Management Board, this was the last payment of a postponed part of previously awarded variable remuneration — there will be no further postponed remuneration available to them. In the Remuneration Report (published on the website) prepared by the Remuneration Committee, the Supervisory Board reports on the execution of the remuneration policy for the ExCo and employees, and on the implementation of the remuneration scheme for the Supervisory Board.

7 SUPPLEMENTARY INFORMATION

7.1 Value creation and materiality

The annual report shows how BNG Bank created financial and non-financial value for its stakeholders in 2021. The annual report also conforms to GRI Standards. These standards are used to determine which topics are of material importance and should be included in the annual report.

Value creation

The value creation model on the next page shows how BNG Bank uses available resources to create value, and what returns this enables the bank to generate.

Material topics 2021

Material topics have a significant impact on the organisation or are topics over which BNG Bank can potentially exercise significant influence. To determine which topics are material to BNG Bank and its stakeholders, a materiality analysis is carried out. An extensive materiality analysis was carried out among internal and external stakeholders in 2019. All possible relevant topics were taken into consideration and a 'long list' was drawn up of 200 relevant, non-financial topics that can be reported on, tailored to the financial sector. These topics were consolidated into 12 material topics. Following consultation with the stakeholders, a materiality matrix was drawn up based on the assessment made by the stakeholders. Based on the survey, the materiality matrix displays the level of prioritisation from the stakeholder groups' perspective along the vertical axis, and the level of prioritisation internally along the horizontal axis. The materiality matrix is shown on p. 83. The definitions of the x and y axes of the matrix are based on the GRI Standards according to which this annual report has been prepared. The 'Influence on stakeholder assessments and decisions' indicates the external prioritisation by stakeholders, and the 'Significance of economic, environmental and social impacts' indicates the bank's own internal prioritisation. In 2021 a revision of the material topics took place, with the aim of ensuring these align with the updated strategy. Ultimately, seven material topics were identified. These seven material topics will be reported on in the 2022 Annual Report. A detailed description of the materiality analysis is included on BNG Bank's website. The definitions of the material topics as they are used in this annual report can be found in the Glossary.

Value creation model

Inputs

Financial
- Funding raised through the issuance of bonds on money and capital markets

Social
- Long-term relationships with the public domain
- Stable shareholder base in the public sector

Intellectual
- Knowledge and experience in the public domain
- Solid governance structure and sound management

Human
- Committed, professional and honest employees
- Investment in the personal and professional development of employees

Purpose

Driven by social impact

Core values

Sustainable, reliable and professional

Core activities

Lending and payment services in the public domain

Strategic focus

More Focus

Operational Excellence

Enhancing client partnerships

Strengthening the organisation

Outputs

- RoE 5.5%
- Share of solvency-free loans 69%, of which 75% granted to or guaranteed by municipalities
- A method for measuring impact developed and implemented
- CO_2 emissions of loan portfolio 6% lower than in 2020 measurements
- Awareness training (as part of gatekeeping function) developed and underway
- Improved CDD process
- Implementation of a SIRA process positively reviewed by DNB
- Net Promoter Score of 28

Outcomes

Financial
- BNG Bank is market leader in the public sector

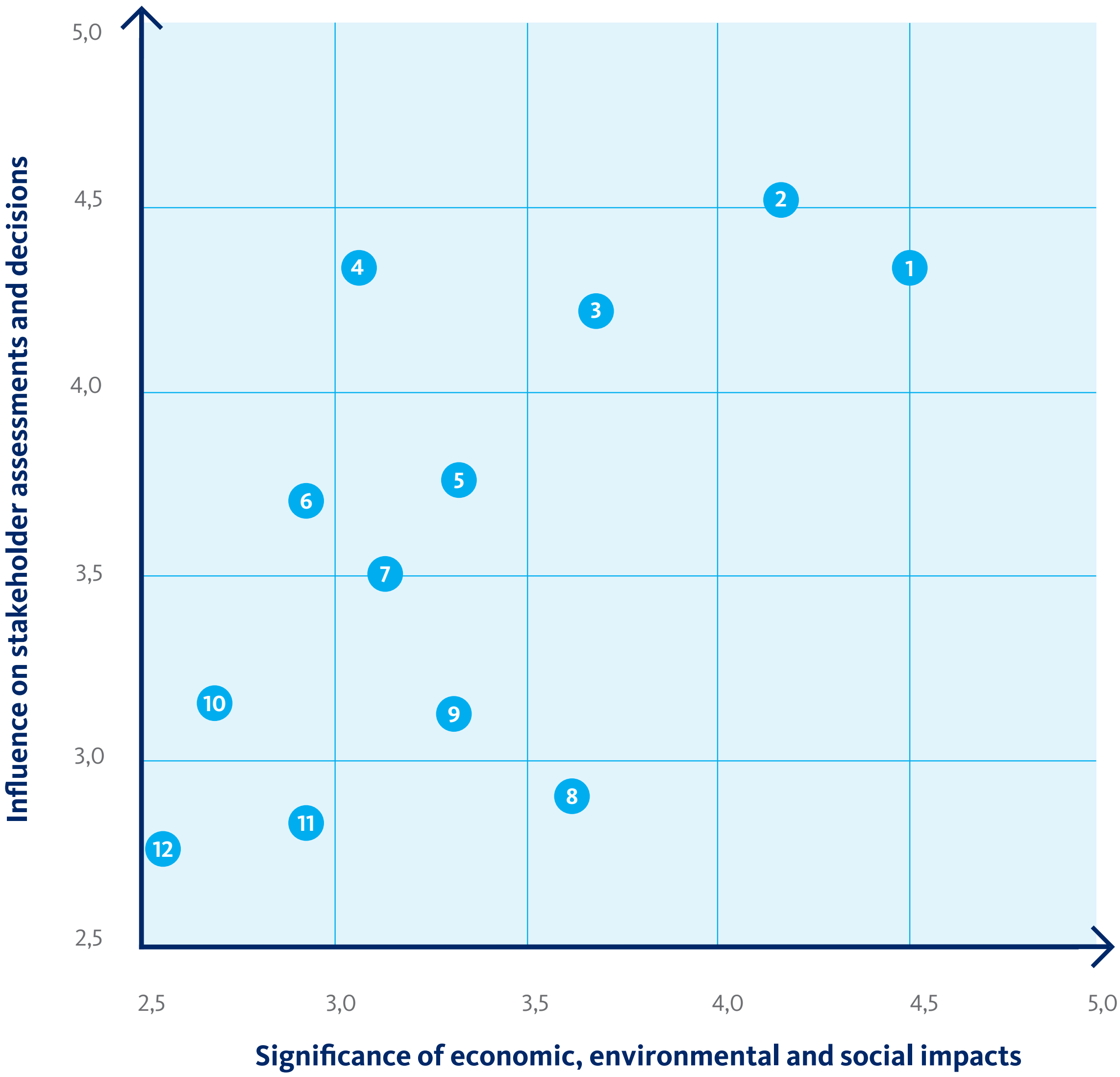
Social and natural
- The social impact of BNG Bank's client groups will have increased
- CO_2 reduction in loan portfolio in line with Climate Agreement (-49% by 2030)
- BNG Bank is equipped to solve social challenges

Intellectual
- High-quality data that is secure and easy to access
- BNG Bank's customer and client processes are efficient and professional

Human
- Bank acts in accordance with purpose and core values sustainable, reliable and professional
- BNG Bank has a working environment in which talent can develop and new talent can be attracted

Impact

Materiality matrix



Material topics

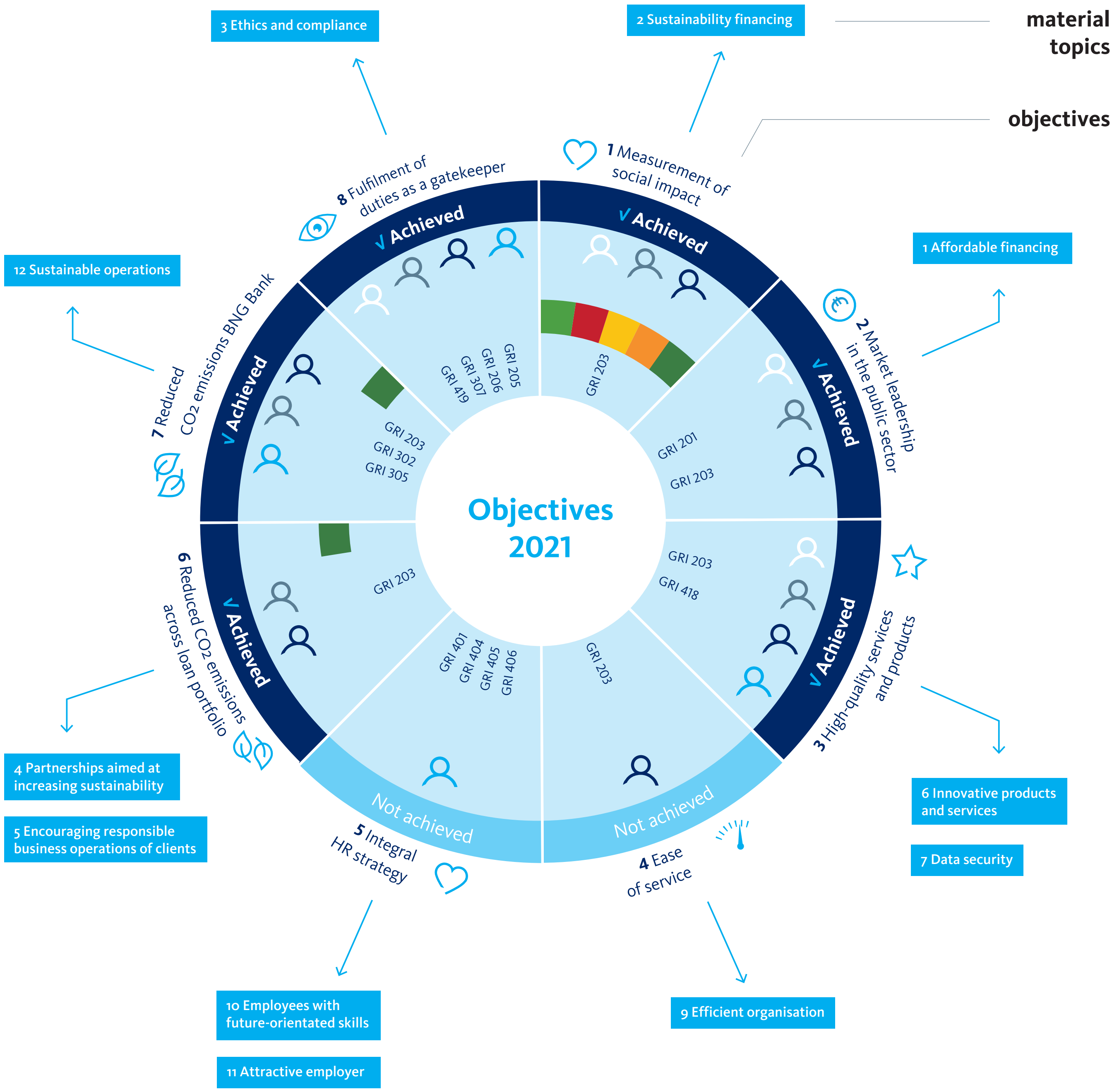
1. Affordable financing
2. Sustainability financing
3. Ethics and compliance
4. Partnerships aimed at increasing sustainability
5. Encouraging responsible business operations of clients
6. Innovative products and processes
7. Data security
8. Reasonable return
9. Efficient organization
10. Employees with future-oriented skills
11. Attractive employer
12. Sustainable operations

Connectivity

In 2021 BNG Bank steered on eight objectives. These objectives and the corresponding KPIs are shown in de table below, in which the paragraph from the annual report is mentioned in which a further explanation is given on the achievement of the objective. In the circle on the next page the connection is made visible between, from outside to inside: the material topics 2021, the objectives 2021, the results achieved, the impact for stakeholders, the applicable SDGs and the applicable GRI standards.

2021 Objective	KPI	Section of the annual report
1. Demonstrable substance to BNG Bank's purpose by measuring and reporting social impact on SDGs and financial returns.	Methodology for impact measurement on SDGs 3, 4, 7, 11 and 13 completed, and indicators for impact measurement defined in 2021.	1.1
2. Maintain the position of market leader in the public sector.	Percentage score solvency-free loans > 55%; - Of which > 60% is granted to or guaranteed by municipalities.	1.3, 3.1
3. Providing reliable, efficient and high-quality services and products.	Net Promoter Score ≥ 20.	1.3
4. Increasing the ease of service for clients.		1.1
5. A comprehensive HR strategy that serves and supports BNG Bank's purpose, core values and strategy.	Leadership programme implemented: - Implementation of an approved leadership programme; and - Execution in accordance with plan. Progress cycle of strategic workforce planning made operational(set-up, existence and operation) by the end of Q3 2021.	2.1
6. Reduction of CO_2 emissions across loan portfolio compared to 2020 figures.	CO_2 emissions in 2021 loan portfolio lower than CO_2 emissions in the 2020 loan portfolio.	1.1
7. Reduction in CO_2 emissions across BNG Bank, compared to 2020 figures.	CO_2 emissions in 2021 loan portfolio lower than CO_2 emissions in the 2020 loan portfolio.	2.2
8. Fulfilment of BNG Bank's gatekeeper function by: **- strengthening the risk culture within the organisation by providing awareness training around the gatekeeper function and measuring its effectiveness; and** **- tightening the requirements made with regard to counterparty integrity, and the implementation of appropriate management measures to effectively enforce these higher standards.**	- Learning needs identified based on interviews with employees and executives. - Presence of a plan of action. - Senior management attended CDD training after initial assessment of knowledge level. - Acceleration in the total number of CDDs conducted. - Defined process for transaction monitoring, resulting in MOT reports. - Implementation of a SIRA process positively reviewed by DNB.	2.3

Realisation objectives 2021



Impact for

clients · employees · stake-holders · investors

Sustainable Development Goals

Material topic objectives for 2022

The objectives for 2022 and associated KPIs about which will be reported in the Annual Report 2022 have been determined on the basis of the revised material topics. These objectives and KPIs are on the next page.

Material topics 2022

Material topic for 2021 Annual Report	Material topic for 2022 Annual Report	Definition
Affordable financing	**Market leader in the public domain**	BNG Bank strives to be a market leader in the public domain by financing governments and public/social organisations.
Sustainability financing	**Social impact on the 5 SDGs**	BNG Bank wants to work with clients to create social impact covering SDGs 3, 4, 7, 11 and 13.
Ethics and compliance	**Ethical conduct in accordance with core values**	BNG Bank employees identify with and act according to the core values and purpose.
Partnerships aimed at increasing sustainability **Encouraging responsible business operations of clients**	**Partnerships and stimulating social impact of clients**	BNG Bank's client partnership is geared towards tackling social problems together with clients.
Innovative products and processes	**Removed**	
Data security	**Data security and high-quality data**	BNG Bank's data is high quality, safe and easy to access.
Reasonable return	**Removed**	
Efficient organisation	**Efficient organisation**	BNG Bank strives for efficient and professional client and loan processes with short turnaround times and minimal margins of error.
Employees with future-orientated skills **Attractive employer**	**Attractive and future-proof work environment**	BNG Bank fosters a work environment where existing talent can develop, and new talent can be attracted.
Sustainable operations	**Removed**	

Objectives and KPIs 2022

Material topic for 2022 Annual Report	2022 objective	KPI's
1. Market leadership in the public domain	BNG Bank is a market leader in the public domain.	- Share (new volume vs. total volume offered) > 55%.
2. Social impact on the 5 SDGs	BNG Bank's social impact has increased.	- Increase in impact > 0% in 2022 vs. 2021.
3.Partnerships and stimulating social impact of clients	BNG Bank's client partnership is set-up to tackle social challenges with clients.	- Net Promoter Score (credit clients) ≥ 20. - Reduction CO_2 emissions vs measurement 2021 > 0.
4. Data security and high-quality data	BNG Bank's data is high quality, safe and easy to access.	- Improved qualitative score on the quality and accessibility of data.
5. Efficient organisation	BNG Bank's client and credit processes are efficient and professional.	- Improved turnaround time for client and credit processes. - Improved 'first-time-right' percentage across client and credit processes.
6. Conducting business ethically according to core values	BNG Bank acts in accordance with the purpose ande core values sustainable, reliable and professional.	- Extent to which employees indicate that core values guide their behaviour ≥ 7,5. - Employee engagement > 7,5.
7. Attractive and future-proof work environment	BNG Bank fosters a work environment where existing talent can develop, and new talent can be attracted.	- Extent to which BNG Bank offers employee the opportunity to develop ≥ 7,5. - Employee Net Promoter Score | Extent to which employees see BNG Bank as an attractive employer ≥ 3.

Opportunities and risks

The strategy determination for 2022 has taken place based on an analysis of internal strengths and weaknesses of BNG Bank and the opportunities and threats from the environment. The strengths and weaknesses of BNG Bank and the most important opportunities and threats are included in the overview below.

Strengths

- Reliable, safe and financially sound bank
- Social involvement
- Stable relationships with clients
- Competitive rates due to strong funding position
- Structural availability to clients

Weaknesses

- Dependence on money and capital markets
- Limited innovative capacity
- One-sided revenue model
- Experience little discipline from the market

Opportunities

- Position as an employer through our purpose: social impact
- Co-creation: including with other social organisations
- Choice for SDGs and contribution to these in the social domain
- Development of the market in the field of sustainable bonds (Green Bond Standards)

Threats

- Arrival of new players in the financial landscape
- Low interest rates
- Costs associated with laws and regulations affecting the bank or clients
- Government vision on utility banks
- Disintermediation

7.2 Reporting principles

In this annual report, BNG Bank accounts for its activities during the 2021 financial year. The annual report represents a balanced and complete analysis of the situation on the balance sheet date, developments and results during the financial year, and the report contains financial and non-financial performance indicators.

Guidelines used and defining the scope of reporting

Legislation and reporting guidelines

BNG Bank draws up its annual report in accordance with Section 391 of Book 2 of the Dutch Civil Code, the EU Directives 'on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings' (2013/34/EU) and the Directive amending Directive 2013/34/EU regarding disclosure of non-financial and diversity information by certain large undertakings and groups (2014/95/EU).

The annual report has been prepared to conform to the 'Comprehensive option' of the GRI Standards (Sustainability Reporting Guidelines of the Global Reporting Initiative). The annual report shows, in accordance with the International <IR> Framework, how BNG Bank created financial and non-financial value for its stakeholders in 2021. The report provides an overview of the principal developments and the performance of BNG Bank in 2021, and shows how the bank deals with opportunities, risks and uncertainties. The annual report is based on the topics designated as material by the ExCo and stakeholders. The process for determining material topics and reporting priorities is available on BNG Bank's website. BNG Bank participates in the Transparency Benchmark, a survey of the Ministry of Economic Affairs and Climate Policy into the content and quality of external reporting on the social aspects of enterprise.

Defining the scope of the annual report

Non-financial information for the 2021 calendar year is included in the 2021 Annual Report to inform stakeholders about the public role of BNG Bank, in relation to its mission, strategy and objectives. The information in this report relates to BNG Bank N.V. The two subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. have not been included in this report as both subsidiaries are being phased out. Where non-financial data relate to subsidiaries, this is indicated. Both subsidiaries are included in the consolidated financial statements. There were no potential or actual acquisitions and disposals in the year under review. The performance of suppliers, sources of funding, clients and other parties in the chain is not included in the figures.

Codes and guidelines observed

BNG Bank endorses a number of codes of conduct and international conventions and guidelines. BNG Bank has undertaken to comply with the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights (2016). As of 2020 and following on the latter agreement, BNG Bank has applied the Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk in project finance. Along with other financial institutions, BNG Bank committed to the Climate Agreement in 2019. As a result of this agreement, the bank reports on the climate-based impact of its lending activities and produces an action plan to contribute to the reduction of CO_2 emissions. BNG Bank endorses the 'Future- oriented Banking' package of the Dutch Banking Association (NVB), which brings together the Social Charter, the Dutch Banking Code and a set of rules of conduct associated with the banker's oath, through which the banking sector explicitly states how strives for service-orientated and sustainable banking.

BNG Bank adheres to the recommendations under the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises, and BNG Bank has implemented these recommendations in relevant procedures. BNG Bank complies with the provisions of the Dutch Corporate Governance Code (2016 revised version) by ensuring that its working methods align as closely as possible with the Code, among other standards. An overview of compliance with the principles and best practice provisions of the Dutch Corporate Governance Code can be found on BNG Bank's website.

Data collection

The quantitative and qualitative information in this annual report was collected on the basis of requests to provide data, requests for information and through interviews. Sources of data include staff records, financial reports, incident registration, the registration of reports from internal confidential counsellors and the Compliance Officer, and the energy consumption records of Facility Management. Information was provided by the departments of Compliance, Finance & Control, HR, Risk Management, Security and Treasury & Capital Markets. Interviews were held with employees of Business Development and Public Finance, among others. BNG Bank follows the GRI Standards for the quality of the data included in this annual report. The non-financial data in this report relate to the 2021 reporting year. Where possible, data and results are also reported for previous years. Internal and external audits are performed on data included in this report.

Management cycle

The ExCo is responsible for strategy, company objectives, content and implementation of policy. The directors and heads of department that report directly to the ExCo are responsible for achieving the objectives in accordance with policy frameworks, and for measuring performance. The ExCo monitors policy implementation and the achievement of objectives on the basis of monthly or quarterly reports prepared by the directors, heads of department and control functions. Where necessary, adjustments are made on the basis of progress against the objectives. Performance against the objectives set is externally reported in the annual report. In turn, the ExCo and senior management evaluate policy as well as the objectives set in preparation for the annual management cycle. The lessons drawn from the evaluation are incorporated into the subsequent management cycle and reported to the Supervisory Board. New policy and procedures are assessed in terms of coherence with existing policy and procedures, and implemented by means of work meetings and publication on the intranet. The policies, procedures and support systems of BNG Bank and its subsidiaries are subject to internal audits.

Principles and methods used in determining CO_2 emissions loan portfolio

The CO_2 emissions associated with the loan portfolio were calculated based on the method developed by the Partnership for Carbon Accounting Financials (PCAF). BNG Bank reported for the first time on the CO_2 emissions associated with its lending activities in its annual report 2019, on its lending in 2018. Due to the availability of necessary data, reporting always covers the year preceding the bank's current reporting year. During the 2020 reporting process, attention was paid to improving the methodology and enhancing the quality of internal and external data. This methodology was applied in the subsequent reporting process. The figures for 2018 and 2019 were recalculated as a result of these improvements.

The CO_2 emissions of the various client sectors for 2018, 2019 and 2020 are shown in the accompanying table. Due to changes in methodology, figures for the drinking water sector cannot be compared with those from previous years. The percentages in brackets indicate the share of the total credits outstanding in the relevant client segment that was included in the measurement. The impact was calculated with reference to the share of the amount outstanding in the various sectors at year-end 2020, against the total debt position of the sector. It is often still necessary to resort to sector averages or reasoned estimates in calculations of the emission data of the various sectors. Public sources were used for this purpose. The actual CO_2 emissions are not measured by BNG Bank. The share of the financing provided by BNG Bank in the emissions of a client or project is calculated by multiplying the bank's share in the total balance sheet size of this client or project by the total greenhouse gas emissions of this client. Calculation is based on the bank's outstanding loans at year-end 2018, 2019 and 2020 (based on nominal amounts outstanding). The emissions data are derived from or calculated based on public data available from Statistics Netherlands (CBS), the Human Environment and Transport Inspectorate, the CBIG (implementing body of the Ministry of Health, Welfare and Sport), the Dienst Uitvoering Onderwijs (DUO) and sustainability reports of the financed institutions.

The calculations were performed by Het PON & Telos. For the definitions of terminology used in this chapter, please refer to the Glossary.

Of the asset classes distinguished in the PCAF method, the following are relevant for BNG Bank: Public Sector Entities, Sovereign Bonds, Project Finance, Commercial Real Estate and Corporate/SME Loans. The measurement has been done in accordance with the general principles laid down by the PCAF:
- where possible, the seven greenhouse gases from the Kyoto Protocol have been included in the calculation and converted to their CO_2 equivalents;
- absolute emissions are expressed in metric tonnes of CO_2 equivalents (tCO_2e);
- relative emissions are expressed in metric tonnes of CO_2 equivalent/million euros (tCO_2e/M€);
- the follow-the-money principle is applied for measuring the CO_2 emissions of financial assets, which means that the financing must be traced as far as possible within the chain in order to properly understand the consequences of CO_2 emissions on the economy;
- in principle, Scope 1, Scope 2 and the relevant parts of Scope 3 are taken into account in the calculation. Any deviations must be explained;
- the greater the influence of a financial institution on an investment, the larger the proportion of the investment that needs to be included in the calculation;
- to calculate the share of CO_2 emissions, all types of financing (both shares and loans) provided must be taken into account in the calculation. Any deviations from this must be explained.

Sector	2020 Amount included in the measure-ments in 2020[1]	2020 CO_2 emissions (tonnes of CO_2 eq.)	2020 CO_2 emissions (tonnes per million euros)	2019 Amount included in the measure-ments in 2019[1]	2019 CO_2 emissions (tonnes of CO_2 eq.)	2019 CO_2 emissions (tonnes per million euros)	2018 Amount included in the measure-ments in 2018[1]	2018 CO_2 emissions (tonnes of CO_2 eq.)	2018 CO_2 emissions (tonnes per million euros)
Public sector	27,909 (100%)	1,657,612	59.4	27,408 (100%)	1,664,245	60.7	26,343 (100%)	1,655,942	62.9
Social housing	41,126 (98%)	897,990	21.8	39,764 (99%)	997,565	25.1	38,351 (99%)	1,079,670	28.2
Healthcare	5,320 (75%)	286,760	53.9	5,234 (72%)	318,274	59.1	5,098 (71%)	297,388	58.3
Education	656 (65%)	35,391	53.9	610 (65%)	32,537	53.3	627 (66%)	33,874	54.0
Water supply companies	571 (83%)	18,929	33.1	691 (88%)	4,616	6.7	712 (88%)	4,725	6.6
Mobility	1,223 (88%)	23,471	19.2	1,071 (71%)	21,252	19.8	885 (59%)	14,017	15.8
Other	63 (2%)	264	4.2	30 (1%)	265	8.8	0	-	-
TOTAL	**76,868 (89%)**	**2,920,417**	**38.0**	**74,963 (89%)**	**3,038,754**	**40.5**	**72,016 (88%)**	**3,085,616**	**42.8**

1 In EUR million

PCAF distinguishes five quality levels for emissions:
- class 1 concerns individual emission data or current energy consumption data that have been the subject of an audit (five stars);
- class 2 concerns non-audited emissions data or other primary consumption data (four stars);
- class 3 concerns average data specific to the sector or comparable institutions (three stars);
- class 4 concerns approximate data based on the region or country (two stars);
- class 5 concerns rough estimates (one star).

The calculation of the Scope 3 emissions for the public sector has been refined. In order to calculate the total emissions from the drinking water sector, an original methodology developed within the sector was applied. For this reason, results cannot be directly compared to those from previous years. For housing associations, it is not possible to calculate the Scope 3 emissions according to the Greenhouse Gas Protocol (GHG Protocol). This includes emissions resulting from the construction (and major maintenance works) of housing association property (for example, transport of building materials and manufacture of pre-fab building elements). No calculations or data are available that provide for a reasonable estimate of these emissions. There is also no Scope 3 data available for the education sector. For the ‘Other organisations and infrastructure’ category, it is possible to identify Scope 1 and Scope 2 emissions. Scope 3 data are not available. No data are available for emissions arising during the construction phase of projects.

Calculation of CO_2 emissions from internal business operations

To monitor progress, BNG Bank reports the CO_2 emissions of its own business operations each year on the basis of Scope 1, Scope 2 and Scope 3 of the GHG Protocol. BNG Bank uses 2010 as the baseline year for its CO_2 emissions. Since that year, BNG Bank has registered its CO_2 emissions on an annual basis. CO_2 emissions are calculated for all business units that fall within BNG Bank’s operational control.

Up to and including 2012, BNG Bank applied the international conversion factors stated in the Greenhouse Gas (GHG) Protocol, those of the Department for Environment, Food and Rural Affairs (Defra in the UK), and those set out in the EC IPPC (Industrial Emissions) Directive. Because BNG Bank is active in the Dutch market, in 2013 the bank transitioned from applying the international conversion factors to using the standard conversion factors generally accepted in the Netherlands, in accordance with the CO_2 performance ladder. Scope 2 emissions are location based in accordance with the GHG Protocol. Green power is extrapolated as climate-neutral (0 grams CO_2/kWh). From 2016, the CO_2 emissions generated by district heating were calculated on the basis of the STEG emissions factor applied by the supplier (46.2 kg/GJ). For 2021, calculations were made using an STEG emissions factor of 31.4 kg/GJ, in line with the most recent statement from the supplier. In contrast to the CO_2 performance ladder, business flights are attributed to Scope 3 (in accordance with the GHG Protocol).

A number of assumptions have been made to calculate the CO_2 emissions. For instance, we did not know the number of kilometres driven by employees in their cars for business purposes. However, this is compensated for with an estimate made for the private use of leased cars (9,000 km/year). In order to calculate the CO_2 emissions of the rental location in Voorburg (included under the bank’s Scope 3 emissions), the lessor’s statement was used (share of total floor area of the building used expressed as a percentage of total consumption). In terms of accuracy, BNG Bank deems the inherent limitations of these assumptions to be non-material.

EU Taxonomy

Promoting the financing of sustainable growth is an important goal of the European Commission. The EU Taxonomy was drawn up to uniformly define sustainable activities. For the time being, BNG Bank is not required to report using the EU Taxonomy, but welcomes the opportunity to help develop a common language and 'level playing field' for sustainable activities. The purpose of the EU Taxonomy aligns with BNG Bank's purpose and strategy, as a bank driven by social impact. The bank sees the EU taxonomy as an opportunity to highlight its clients' social impact. At the same time, BNG Bank notes that it will be no simple matter to obtain information about the activities across its loan portfolio that qualify as sustainable according to the EU Taxonomy. This is because, for BNG Bank's largest client groups, there is still no obligation to report using the EU Taxonomy, and also because BNG Bank's activities consist largely of balance sheet financing. In the coming period, BNG Bank will focus on clarifying the extent to which its assets qualify for and are aligned with the Taxonomy. BNG Bank expects to report on this from 2023.

7.3 Glossary

Affordable financing (material topic Annual Report 2021): Offering affordable financing to clients with an attractive mix of size and maturities.

Attractive employer (material topic Annual Report 2021): Providing a safe and inclusive work environment and challenging jobs with career opportunities and competitive terms of employment.

Attractive and future-proof work environment (material topic 2022): BNG Bank maintains a work environment in which talent can be developed, also helping to attract new talent.

Bond: Tradable proof of participation in a loan, with a fixed nominal value on which interest (usually fixed interest) is paid. The loan is repaid after the term expires. A bond is sustainable if the funds obtained from issuing the bond are used solely for sustainable projects.

CEO: Chief Executive Officer, chair of the ExCo and the statutory board

CCO: Chief Commercial Officer, member of the ExCo

CFO: Chief Financial Officer, member of the ExCo and the statutory board

Compliance: Observance of laws and regulations, as well as working in accordance with the standards and rules drawn up by the institution itself.

Compliance Management Framework (CMF): Policy, work procedures, roles and responsibilities to ensure proper compliance by BNG Bank with the applicable laws and regulations, as a result of which the risk of financial losses or reputational loss due to inadequate compliance with laws and regulations is reduced, becoming more manageable.

Conducting business ethically according to core values (material topic 2022): Employees identify and act in line with BNG Bank's core values and purpose.

Consolidated financial statements: The financial statements of a group of legal entities in which the annual figures of both the parent company and its subsidiaries included in the consolidation are aggregated into the accounting figure, and shown as belonging to a single reporting entity.

COO: Chief Operating Officer, member of the Exco

Corporate governance: Corporate governance is the system of principles and best-practice provisions regulating relations between the Executive Committee, the Supervisory Board and the General Meeting of Shareholders. The Dutch corporate governance model is characterised by the two-tier board structure, which provides for a Supervisory Board with supervisory duties and a managing body with executive management duties.

Credit risk: Existing or future threat of loss of income or capital as a result of the potential risk of failure by a borrower or counterparty to meet their obligations in accordance with the agreed conditions. Credit risk includes the counterparty risk, settlement risk and concentration risk.

CRO: Chief Risk Officer, member of the ExCo and the statutory board

Customer Due Diligence Policy (CDD): A policy to ensure that banks know and monitor their clients well in order to prevent and combat financial and economic crime. This policy enables banks to fulfil their important gatekeeper function, the aim of which is to prevent funds obtained through financial and economic crime from gaining access to the financial banking system.

Data security (material topic Annual Report 2021): The security of the information systems and safeguarding that the data entrusted to BNG Bank comply with the most stringent security requirements.

Data security and high-quality data (material topic 2022): The data BNG Bank works with is high quality, secure and easy to access.

Efficient organisation (material topic Annual Report 2021): Targeting increased efficiency through effective alignment of work processes and ensuring short lines of communication in the organisation.

Efficient organisation (material topic 2022): BNG Bank aims to provide efficient and professional customer credit processes with short turnaround times and minimal margins of error.

Employees with future-oriented skills (material topic Annual Report 2021): Creating a future-proof workforce by supporting employees in their career development, stimulating job mobility and providing training.

Encouraging responsible business operations of clients (material topic Annual Report 2021): Stimulating clients to take initiatives aimed at increasing the sustainability of society.

Ethics and compliance (material topic 2021): Acting with due care while observing responsibilities and applicable rules, in a morally responsible manner and on the basis of generally accepted social and ethical norms.

Ethical conduct in accordance with core values (material topic 2022): The employees of BNG Bank identify themselves and act in line with the core values and purpose.

Executive Committee (ExCo): BNG Bank's management body in its executive function

Exposure: Payment obligation. An exposure may be a non-cash payment obligation, if it is provided solely as a guarantee.

Full-time equivalent (FTE): A unit to measure the scope of an employment contract or the workforce. Within BNG Bank, one FTE represents one employee with a full-time working week of 36 hours.

Funding: Raising short-term and long-term capital in various currencies in international money and capital markets.

Global Reporting Initiative (GRI): Sustainability guidelines for reporting on economic, social and environmental performance.

Innovative products and processes (material topic): Anticipating the future through product and process innovations.

Integrated Reporting: Reporting framework originating from the International Integrated Reporting Council (IIRC) resulting in an integrated report covering value creation: the external environment influencing the organisation, the incoming and outgoing resources and the way that the organisation interacts with the external environment. The value creation model is used to record the results.

Internal Governance Framework (IGF): Overview of the internal governance organisation that forms the basis for internal decision-making. The IGF describes the Three Lines of Defence model and the position of risk management within this model.

Leverage ratio: The ratio between a bank's Tier 1 capital and the adjusted balance sheet total.

Liquidity and financing risk: Existing or future threat to capital and income that will prevent an institution from meeting its payment obligations without incurring unacceptable costs or losses. Short-term liquidity risk is the risk that a bank will not be able to attract sufficient funds to meet its payment obligations. Long-term liquidity risk (or refinancing risk) is the risk that a bank will be unable to attract funds or sufficient funds at conditions that do not pose a risk to continuity.

Loans subject to solvency: Loans for which regulations require a certain amount of equity to be held as a buffer against the risk of non-repayment.

Long-term lending: The provision of loans with a term of more than one year.

Market leader in the public domain (material topic 2022): BNG Bank wants to be market leader in the public domain by financing governments and public/social organisations.

Market risk: Existing or future threat to capital and income due to the fluctuation of market prices. Market risk includes the interest rate risk, exchange risk, volatility risk and spread risk.

material topics: Topics identified using the 'materiality analysis' which are sufficiently important to be reported on in the annual report.

Materiality analysis: Process in which it is determined with input from stakeholders which topics, known as 'material topics', are sufficiently important to be reported on in the Annual Report.

Net promoter score (NPS): In order to calculate the NPS, BNG Bank asks how likely it is that a client recommends the bank to a colleague or relation. Clients can answer with a score on a 0-10 scale, with the following distribution: promoters (9 or 10); passives (7 or 8); detractors (0-6). NPS is calculated as the percentage promoters minus the percentage detractors.

Operational risk: Existing or future threat of loss of capital and income due to the shortcomings of internal processes, people and systems, or as a result of external events. Operational risk comprises process risk, people risk, ICT risk, data quality risk, outsourcing risk, compliance risk, legal risk and external event risk.

Partnerships aimed at increasing sustainability (material topic Annual Report 2021): Cooperative working relationships with various public and private partners to support increasing the sustainability of the Netherlands.

Partnerships and stimulating social impact of clients (material topic 2022): BNG Bank's client partnership is designed to solve social issues with its clients.

Promotional loan: A loan granted directly or via an intermediary credit institution, by a credit institution under public law or an entity established by the central, regional or local government of a member state, on a non-competitive, not-for-profit basis, in order to promote the policy objectives of the central, regional or local government of a member state of the European Union.

Rating: Valuation of banks' creditworthiness, banks' capacity to meet their obligations. The assessment is made by independent, recognised rating agencies, such as Moody's, Fitch and Standard & Poor's.

Reasonable return (material topic): Aiming for a reasonable return on equity.

Return on equity (ROE): Calculated by dividing the net profit minus the distributed dividend on hybrid capital by the aggregate of the equity minus the hybrid capital and the unrealised reserves at the start of the financial year. The unrealised reserves are the revaluation reserve, the cash-flow hedge reserve, the own credit adjustment and the cost of hedging reserve.

Risk Appetite Framework (RAF): Includes policy, processes, controls and systems used to determine, communicate and monitor the bank's risk appetite, including the Risk Appetite Statement, risk limits and an overview of the roles and responsibilities of those who supervise the implementation and monitoring of the framework.

Risk Appetite Statement (RAS): Description of the risks that the bank wishes to accept in order to achieve its objectives.

Risk management and risk control: Identifying and controlling potential risks in an institution's business operations.

Risk Management Framework (RMF): Consists of overarching policy on general and specific risk-related topics: risk governance, risk appetite framework and specific risks, and is tailored to the specific company profile. The framework forms part of the Internal Governance Framework.

Scope 1: Direct CO_2 emissions caused by fuels that the institution itself purchases and consumes. This concerns emissions from the institution's own buildings and transport and production-related activities.

Scope 2: Indirect CO_2emissions in the business operations of the institution. This concerns the consumption of electricity and heat, physically generated elsewhere.

Scope 3: Other indirect CO_2emissions for which the institution does not itself handle procurement, as well as direct emissions beyond the institution's direct control. This includes, among other things, the commuting by employees of the institution without lease cars and the consumption by external parties from which the institution procures services (such as air travel).

Services of general economic interest: Economic activities that serve the public interest but could not typically be carried out profitably (DAEB: Diensten van Algemeen Economisch Belang). This allows companies assessed with a DAEB to be compensated.

Social Housing Bond: A sustainable bond, the available resources from which are used for sustainable activities within the social rental sector.

Social impact: BNG Bank's impact on social issues, translated into SDGs.

Social impact on 5 SDGs (material topic 2022): BNG Bank strives to create social impact through its client partnerships in line with SDGs 3, 4, 7, 11 and 13.

Social Return On Investment (SROI): Agreement between the contracting authority (government) and the contractor regarding the provision of a social contribution as part of the contract. An SROI obligation can be met by deploying people who are at a disadvantage on the labour market in the execution of the contract, or by making a social contribution by purchasing from a social enterprise or by carrying out a social activity.

Socially Responsible Investing (SRI) bond: Sustainable bond, the available resources from which are used for sustainable activities within sustainable municipalities.

Solvency-free loans: Loans for which no equity is required because they are considered to be (virtually) free of credit risk. Loans to or under guarantee from the Dutch government are considered to be (nearly) free of credit risk.

Stakeholders: Groups or individuals who can reasonably be expected to be significantly affected by the institution's activities, products or services and/or whose actions affect the ability of the institution to implement its strategies or achieve its objectives.

Strategic risk: Existing or future threat that strategic decisions of the institution itself will lead to losses as a result of changes beyond the control of the institution in the area of the bank's competitive position, political climate, regulatory developments, reputation and business climate. In addition to general strategic risks, strategic risk includes: reputational risk, political risk, regulatory risk, sustainability risk and business climate.

Supervisory Board (SB): BNG Bank's management body in its supervisory function

Sustainability financing (material topic Annual Report 2021): Contributing to increasing the sustainability of the Netherlands by financing the energy transition and increasing the sustainability of real estate.

Sustainable Development Goals (SDGs): 17 sustainability goals aimed at ensuring peace and prosperity for people and the planet, now and in the future; endorsed by all member states of the United Nations in 2015.

Sustainable operations (material topic Annual Report 2021): Limiting the environmental impact of one's own operations by targeting energy reduction and selecting suppliers on the basis of responsible procurement criteria.

Three Lines of Defence: Risk management framework that spreads responsibility for operational risk management across three roles. Line management in the first line is the owner of and directly manages risks. The second line supervises the first line, determines policy, defines risk tolerance limits and ensures that these are observed. The third line, consisting of internal audit, provides independent assurance of the first two lines.

Tier 1 Capital ratio: Ratio between the core Tier 1 capital of a bank (equity and reserves) and total risk-weighted assets. The Tier 1 capital ratio is an important measure of the financial strength of a bank.

Value creation and the value creation model: See 'Integrated Reporting'.

8 FINANCIAL STATEMENTS

8.1 Consolidated financial statements

Consolidated balance sheet

Amounts in millions of euros	NOTE	31-12-2021	31-12-2020
Assets			
Cash and balances held with central banks	1	9,264	2,312
Amounts due from banks	2, 34	163	120
Cash collateral posted	3, 34	12,993	20,361
Financial assets at fair value through the income statement	4	1,383	1,452
Derivatives	5	5,685	8,540
Financial assets at fair value through other comprehensive income	6, 34	8,572	9,738
Interest-bearing securities at amortised cost	7, 34	7,632	7,880
Loans and advances at amortised costs	8, 34	89,738	88,942
Value adjustments on loans in portfolio hedge accounting	9	13,555	20,816
Associates and joint ventures	10	28	31
Property & equipment	11	15	17
Current tax assets	20	-	1
Other assets	12, 34	21	149
Assets held for sale	10	8	-
Total assets		**149,057**	**160,359**
Liabilities			
Amounts due to banks	13	19,525	12,221
Cash collateral received	14	984	858
Financial liabilities at fair value through the income statement	15	310	656
Derivatives	16	16,935	26,965
Debt securities	17	101,355	108,615
Funds entrusted	18	4,525	5,599
Subordinated debts	19	36	35
Current tax liabilities	20	32	0
Deferred tax liabilities	20	77	98
Other liabilities	21	216	215
Total liabilities		**143,995**	**155,262**
Equity			
Share capital		139	139
Share premium reserve		6	6
Retained earnings		3,736	3,712
Revaluation reserve		83	86
Cash flow hedge reserve		1	11
Own credit adjustment		3	5
Cost of hedging reserve		125	184
Net profit		236	221
Equity attributable to shareholders	22	**4,329**	**4,364**
Hybrid capital	22	733	733
Total equity	22	**5,062**	**5,097**
Total liabilities and equity		**149,057**	**160,359**

Consolidated income statement

Amounts in millions of euros	NOTE		2021		2020
- Interest revenue calculated using the effective interest method		4,195		4,514	
- Other interest revenue		216		362	
Total interest revenue		4,411		4,876	
- Interest expenses calculated using the effective interest method		3,919		4,313	
- Other interest expenses		85		86	
Total interest expenses		4,004		4,399	
Interest result	23		407		477
- Commission income		20		29	
- Commission expenses		3		4	
Commission result	24		17		25
Result on financial transactions	25		100		-17
Results from associates and joint ventures	26		4		3
Other results	27		1		1
Total income			**529**		**489**
Staff costs	28		57		49
Other administrative expenses	29		47		46
Depreciation	30		3		3
Other operating expenses			0		0
Total operating expenses			**107**		**98**
Net impairment losses on financial assets	31		20		16
Net impairment losses on associates and joint ventures	32		-2		1
Contribution to resolution fund	33		1		8
Bank levy	33		53		34
Total other expenses			**72**		**59**
Profit before tax			**350**		**332**
Income tax expense	20		114		111
Net profit			**236**		**221**
- of which attributable to the holders of hybrid capital			25		19
- of which attributable to shareholders			211		202

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

Consolidated statement of comprehensive income

Amounts in millions of euros. All figures in the statement are after taxation.			2021			2020
Net profit			**236**			**221**
Recyclable results recognised directly in equity						
Changes in cash flow hedge reserve:						
- Unrealised value changes	-10			-2		
- Realised value changes transferred to the income statement	0			-		
		-10			- 2	
Changes in cost of hedging reserve:						
- Unrealised value changes	-62			20		
- Realised value changes transferred to the income statement	3			- 10		
		-59			10	
Changes in the revaluation reserve for financial assets at fair value through other comprehensive income:						
- Unrealised value changes	45			32		
- Realised value changes transferred to the income statement	-48			- 30		
		-3			2	
Total recyclable results		**-72**			**10**	
Non-recyclable results recognised directly in equity:						
- Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL	-2			-3		
Total non-recyclable results		**-2**			**-3**	
Results recognised directly in equity			**-74**			**7**
Total			**162**			**228**
- of which attributable to the holders of hybrid capital			25			19
- of which attributable to shareholders			137			209

Consolidated cash flow statement

Amounts in millions of euros	2021	2020
Cash flow from operating activities		
Profit before tax	350	332
Adjusted for:		
- Depreciation	3	3
- Impairments	18	17
- Unrealised results through the income statement	-43	54
Changes in operating assets and liabilities:		
- Changes in Amounts due from and due to banks (not due on demand)	-194	-537
- Changes in Cash collateral posted and received	6,359	-5,864
- Changes in repos and reverse repos	-	-
- Changes in Loans and advances	1,145	-628
- Changes in Funds entrusted	-1,131	172
- Changes in Derivatives	574	-1,416
- Corporate income tax paid	-81	-71
- Other changes from operating activities	-394	-210
Net cash flow from operating activities	**6,606**	**-8,148**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
- Financial assets at fair value through the income statement	-9	-146
- Financial assets at fair value through other comprehensive income	-8,322	-5,016
- Interest-bearing securities at amortised cost	-850	-1,862
- Investments in associates and joint ventures	-	-
- Property and equipment	-1	-2
Disposals and redemptions pertaining to:		
- Financial assets at fair value through the income statement	82	496
- Financial assets at fair value through other comprehensive income	9,215	4,553
- Interest-bearing securities at amortised cost	1,211	1,821
- Investments in associates and joint ventures	-	2
Net cash flow from investing activities	**1,326**	**-154**
Cash flow from financing activities		
Amounts received on account of:		
- Central bank financing (TLTRO)	7,500	11,000
- Financial liabilities at fair value through the income statement	-	-
- Debt securities	285,071	219,779
Amounts paid on account of:		
- Financial liabilities at fair value through the income statement	-354	-8
- Debt securities	-292,980	-221,405
- Subordinated debt	-1	-
- Compensation on hybrid capital	-25	-25
- Dividend distribution to shareholders	-172	-
Net cash flow from financing activities	**-961**	**9,341**
Net change in cash and cash equivalents	**6,971**	**1,039**

Continuation of previous page

Amounts in millions of euros	2021	2020
Cash and cash equivalents as at 1 January	2,315	1,276
Cash and cash equivalents as at 31 december	**9,286**	**2,315**
Cash and cash equivalents as at 31 December:		
- Cash and balances held with central banks	9,264	2,312
- Cash equivalents in the Amount due from banks item	23	4
- Cash equivalents in the Amount due to banks item	-1	-1
	9,286	**2,315**
Notes to cash flow from operating activities		
Interest income received	4,365	5,877
Interest expenses paid	-3,991	-5,550
	374	**327**

Consolidated statement of changes in equity

Amounts in millions of euros. All figures in the statement are after taxation.	Share capital	Share premium reserve	Revaluation reserve	Cashflow hedge reserve	Own credit adjustment	Cost of hedging reserve	Retained earnings	Unappropriated profit	Equity attributable to shareholders	Hybrid capital	Total
Balance as at 01/01/2020	139	6	84	13	8	174	3,730	0	4,154	733	4,887
Total comprehensive income			2	-2	-3	10	0	221	228		228
Dividend distribution to the bank's shareholders									0		0
Compensation to holders of hybrid capital							-18		-18		-18
Balance as at 31/12/2020	139	6	86	11	5	184	3,712	221	4,364	733	5,097
Appropriation from previous year's profit							221	-221	0		0
Balance as at 01/01/2021	139	6	86	11	5	184	3,933	-	4,364	733	5,097
Total comprehensive income			-3	-10	-2	-59		236	162		162
Dividend distribution to the bank's shareholders							-172		-172		-172
Compensation to holders of hybrid capital							-25		-25		-25
Appropriation from previous year's profit											0
Balance as at 31/12/2021	139	6	83	1	3	125	3,736	236	4,329	733	5,062

BNG Bank has not recognised any results from minority interests in the consolidated equity which is attributable to third parties. With the exception of hybrid capital, the entire equity is attributable to the shareholders.

Accounting principles for the consolidated financial statements

General company information

BNG Bank N.V. is a statutory two-tier company under Dutch law, that is guided by social impact. Our focus is exclusively on the public domain and on increasing our social impact. Half of the Bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2, The Hague(listed under Chamber of Commerce number 27008387) in The Netherlands and has no branch offices. The consolidated financial statements were prepared and issued for publication by the Executive Board on 18 March 2022 and will be presented to the General Meeting of Shareholders for adoption on 21 April 2022.

Applicable laws and regulations

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

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

The consolidated financial statements are prepared on the basis of the going-concern principle. Most balance sheet items are valued at amortised cost. The balance sheet items Financial assets at fair value through the income statement (FVPL), Financial assets at fair value through other comprehensive income (FVOCI), Derivatives and Financial liabilities at fair value through the income statement (FVPL) are recognised 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.

The euro is the functional and reporting currency used by BNG Bank. All amounts in the consolidated financial statements are stated in millions of euros, unless stated otherwise.

Accounting principles for consolidation

Each year, BNG Bank prepares, as the parent company, the consolidated financial statements for the company and its subsidiaries. The financial statements of the parent company and its subsidiaries which are used to prepare the consolidated financial statements are drawn up at the same reporting date, and are based on uniform principles. All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated financial statements. The consolidated financial statements comprise all subsidiaries over which BNG Bank has control. The consolidation base subject to prudential regulation (CRR/CRD IV) is identical to the consolidation base under International Financial Reporting Standards (IFRS). Section 'Other information' of this document contains a list of BNG Bank's consolidated subsidiaries. Control exists if BNG Bank is exposed as an investor to variable returns due to its involvement and is able to influence these returns by exercising power over the relevant activities of the investment. Group companies are consolidated in full from the date that 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.

Changes in accounting policy

Triggered by the ECB announcement that it would cancel general dividend restrictions from 1 October 2021 coupled with the IFRIC interpretation on IAS 12.57A the tax related to the compensation on hybrid capital is now directly taken into account in the income statement as part of the tax expense. Until the end of 2020, these amounts were stated as deferred tax. If this was already applied in 2020 net profit would be EUR 6 million higher. The effect on equity would be nil, because retained earnings would be EUR 6 million lower.

Impact of COVID-19 on Financial Statements

In 2021, the COVID-19 pandemic still had an impact both operationally and financially, but the impact on our results remained limited. 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 on financial results and significant estimates and methods used is provided in the relevant notes.

Involvement in non-consolidated structured entities

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

Accounting estimates and judgements

The most significant accounting estimates and judgements applied in these consolidated financial statements relate to fair value measurement of financial instruments and impairment of financial assets. The most important methods and estimates relate to the fair value measurement of financial instruments for which there is no active market (for a more detailed description, see section 'Fair value of Financial Instruments'). BNG Bank uses generally accepted valuation models to measure the fair value of these financial instruments. For level 2 instruments, BNG Bank uses observable inputs to determine forward curves, discounting curves, volatility curves, inflation curves and spread curves. For level 3 instruments, the main unobservable inputs relate to recovery rates and correlation factors for bonds with a monoline guarantee and credit and liquidity spreads.

The results of these models are based on various assumptions, including the discount rate and the future expected cash flows. Differences in the assumptions may have an effect on the reported values.

For the estimates and judgements to determine the impairment of financial assets we use internal estimation techniques to determine forward-looking information, Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD) and Significant Increase Credit Risk (SICR). Furthermore, for non-performing assets the bank assesses the net present value of expected future cash flows (including the valuation of underlying collateral) for five probability weighted scenarios. For further details please refer to 'Impairment of financial assets'.

For a detailed description of the methods and assumptions used, please refer to the accounting principles for the individual balance sheet items or topics. BNG Bank periodically evaluates the estimates and assumptions that it applies. Any revisions are reported in the year in which the estimate is revised.

Balance sheet netting

Financial assets and financial liabilities are only netted on the balance sheet if and insofar as it is certain that the net and simultaneous settlement of the amount receivable and the amount payable can be legally enforced under normal circumstances as well as in the event of default, insolvency and liquidation, and if there is a distinct intention to settle either the net amount as such, or both items simultaneously. Balance sheet item 'Amounts due from Banks' include a netted amount of repos. These items only netted when there is an enforceable master agreement. For derivatives and taxes, please refer to the specific additional netting rules for the relevant balance sheet items.

Foreign currency

Foreign currency transactions are translated into functional currency on initial recognition at the exchange rate applicable on the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are translated into functional currency at the closing rate. Exchange rate results are recognised at the balance sheet date in the income statement, under the Result on financial transactions item, with the exception of (the effective portion of) the foreign currency transactions that were designated in a cash flow hedge accounting relationship. These exchange rate differences are recognised in the cash flow hedge reserve.

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 Annual Report.

Applied accounting standards adopted by the EU effective on or after 1 January 2021

BNG Bank applied the mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2021, to our 2021 financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 19 concerning the Interest Rate Benchmark Reform - Phase 2: amendments issued by IASB in August 2020 to adress the accounting issues which arise upon the replacement of an IBOR with a Risk free rate. In December 2021 the first transition took place. The impact on the financial statements as a result of the IBOR reform is limited. For further detail we refer to paragraph 'Interest Rate Benchmark Reform ("IBOR reform") which is stated below.
- Amendments to IFRS 4 'Insurance Contracts - deferral of IFRS 9': amendments issued by the IAS on 25 June 2020 and endorced by the EU on 15 December 2020. These amendments became effective on 1 January 2021, however the Bank does not have any insurance contracts with cliënts, therefore no impact on the financial statements.
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions: effective as per 1 April 2021. The amendments were issued by the IAS on 28 May 2020 and endorced by the EU on 9 October 2020. The Bank does not have any lease agreements with rental consessions and therefore no impact.

Accounting standards endorced by the EU effective on or after 1 January 2022

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been endorsed by the EU. BNG Bank has also decided against early application of amended standards and interpretations endorsed by the EU whose application is mandatory for the financial years after 1 January 2022. Application of the following new or amended standards, interpretations and improvements might have led to limited adjustments in the 2021 financial statements in respect of valuation, the determination of the result and the disclosures of the bank.

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020: issued by the IASB on 14 May 2020 and is endorsed by the EU on 28 June 2021. The amendments will be effective as from 1 January 2022, the impact is expected to be limited.
- IFRS 17 'Insurance Contracts' issued on 18 May 2017 and the amendments to IFRS 17: amendments issued by the IASB on 25 June 2020 and endorsed on 19 november 2021. The Bank does not have any insurance contracts with cliënts, therefore no impact on the financial statements.

Accounting standards not adopted by the EU which are not yet applied
BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has also decided against early application of amended standards and interpretations adopted by the EU whose application is mandatory for the financial years on or after 1 January 2022.

Interest Rate Benchmark Reform ("IBOR reform")
The Interest Rate Benchmark Reform ("IBOR reform") can be divided in 2 phases. The execution of phase 1 started in 2020 and was finalised in 2021 while the phase 2 amendments became effective on 1 January 2021.

Phase 1
As part of the IBOR reform new fall back clauses are applied for new centrally cleared instruments as from 27 July 2020. As per end of 2021 €STR (Euro Short Term Rate), SARON (Swiss Average Rate Overnight) and SONIA (Sterling Overnight Index Average Rate) are the benchmarks in use. EONIA and GBP/CHF LIBOR are no longer applied for existing contracts in 2022.

Non-centrally cleared loans with GBP Libor rates will be transferred to SONIA in 2022. Until this time synthetic LIBOR will be used for outstanding GBP LIBOR floating rate notes with customers.

Transition of USD LIBOR was scheduled as of 1 January 2022, but in November 2021 it was decided by regulator to postpone the transition with one year, till 1 January 2023.

Phase 2
BNG Bank is closely monitoring the market and the output from the various industry working groups managing the transition of the remaining benchmark interest rates. This includes announcements made by 'IBOR' regulators regarding the Secured Overnight Financing Rate (SOFR) and the Tokyo Overnight Average Rate (TONA).

The Bank applies temporary reliefs which enable its hedge accounting practices to continue during the period of uncertainty. For the purpose of determining whether an intended transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

BNG Bank will continue to apply the amendments to IFRS 9/IAS 39, until the uncertainty arising from the interest rate benchmark reforms ends. The bank assumes that this uncertainty will not end until BNG Bank's contracts are amended to the new reference rates. Timelines mainly depend on negotiation with counterparties, resulting in implementation of fall back clauses in the bank's contracts.

The main exposure on non-derivative financial assets not involved in hedge accounting is, as of December 2021, EUR 0.1 billion and relates to the non-centrally cleared GBP floating rate notes. The exposure on non-derivative financial liabilities not involved in hedge accounting is nil.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9/IAS 39 amendments due to benchmark interest rate reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type		up to 1 year	1 to 5 years	over 5 years	Hedged item
Fair value hedges	Pay float EUR, receive fixed	EUR	3,222	21,496	34,722	Fixed rate issued debt matching critical terms to hedge interest rate risk, FX risk and option risk.
		USD	4,404	11,111	1,642	
		AUD	314	2,460	3,092	
		GBP	1,309	1,999	321	
		CHF	121	1,181	386	
		Other	646	252	501	
	Pay float EUR, receive fixed EUR		3,007	8,165	15,478	Portfolio fair value hedge relationship (of the EUR-libor component) of fixed rate loans and debt securities
	Receive float EUR, pay fixed EUR		4,523	19,118	74,716	
	Receive float EUR, pay fixed EUR		155	1,677	6,274	Fixed rate debt securities held in the liquidity portfolio matching critical terms to hedge interest rate risk.
	Receive float EUR, pay fixed	GBP			760	Fixed rate debt securities matching critical terms to hedge interest rate risk, FX risk and option risk.
		ZAR	123			
		Other	6	63		
	Index payed fixed GBP		1	4	89	GBP inflation linked rate issued debt matching critical terms to hedge interest rate risk.
Cash flow hedges	Pay float EUR, receive float USD		1,468	440	446	USD float rate issued debt matching critical terms to hedge FX risk and option risk.
	Receive float GBP, pay fixed GBP				263	Float rate debt security matching the critical terms hedging the interest rate risk
	Receive float EUR, pay float USD				19	USD float rate loan matching critical terms to hedge FX risk and option risk.

Hedge type	Instrument type	up to 1 year	1 to 5 years	over 5 years	Hedged item
	Pay fixed EUR, receive fixed ZAR		165		ZAR fixed rate issued debt matching critical terms to hedge FX risk and option risk.

Summary of significant accounting policies

Classification and measurement of financial instruments
BNG Bank classifies its financial assets into the following measurement categories:
- those to be measured at fair value (either through other comprehensive income, or through the income statement); and
- those to be measured at amortised cost. The classification depends on BNG Bank's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

BNG Bank classifies its financial liabilities at amortised cost, unless it has designated liabilities at fair value through the income statement or it is required to measure liabilities at fair value through the income statement, such as derivative liabilities.

Financial assets measured at amortised cost
Financial instruments are measured at amortised cost where they:
- have contractual terms that give rise to cash flows on specified dates, which represent solely payments of principal and interest (SPPI test) on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below under Impairment of financial assets. Financial assets measured at amortised cost are included in the balance sheet items Cash and balances held with central banks, Amounts due from banks, Cash collateral posted, Interest-bearing securities at amortised cost and Loans and advances at amortised cost. Interest revenue from these financial assets is included in Interest revenue calculated using the effective interest method.

Financial assets measured at fair value through other comprehensive income
Investments in debt instruments are measured at fair value through other comprehensive income where they:
- have contractual terms that give rise to cash flows on specified dates, which represent solely payments of principal and interest (SPPI test) on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity, except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses. Interest revenue from these financial assets is included in Interest revenue calculated using the effective interest method. Impairment losses or reversals and foreign exchange gains and losses are also recognised in the income statement.

Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below under Impairment of financial assets.

Financial assets or liabilities at fair value through the income statement

Items at fair value through the income statement comprise:
- debt instruments with contractual terms that do not represent solely payments of principal and interest (mandatory);
- items specifically designated at fair value through the income statement on initial recognition;
- derivatives; and
- equity instruments.

Financial instruments held at fair value through the income statement are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement within result on financial transactions as they arise. Interest revenue or expenses from these financial assets and liabilities (except for derivatives involved in hedge accounting) are included in Other interest revenue or Other interest expenses. Interest revenue or expenses from derivatives involved in hedge accounting are included in Interest revenue using the effective interest method or Interest expenses using the effective interest method. Derivatives are measured at fair value, including market value changes due to the counterparty credit risk (Credit Valuation Adjustment) and due to own credit risk (Debit Valuation Adjustment) for derivative transactions without a daily or limited exchange of collateral.

Financial instruments designated as measured at fair value through the income statement

Upon initial recognition, financial instruments may be designated as measured at fair value through the income statement. A financial asset may only be designated at fair value through the income statement if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. it eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through the income statement if it eliminates or significantly reduces an accounting mismatch or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through the income statement, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is recognised separately in other comprehensive income within equity.

Equity instruments

BNG Bank does not make use of the option under the standard to measure equity instruments at fair value through other comprehensive income. As a result, investments in equity instruments are measured at fair value through the income statement.

Derecognition of financial instruments

A financial asset is derecognised if:

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

A write-off is regarded as a derecognition event and is recognised when BNG Bank has no reasonable expectations of recovering (a portion of) the contractual cash flows on a financial asset. In case of a write-off, BNG Bank will directly reduce the gross carrying amount of the financial asset.

If the terms of a financial asset are modified, BNG Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

BNG Bank derecognises a financial liability when its terms are modified and the cash flows of the modified financial liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit and loss. A financial liability is also derecognised when the obligation specified in the contract has been discharged or cancelled or has expired.

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

Collateral (bonds) furnished by BNG Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because BNG Bank retains all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Transfer of financial assets

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

Impairment of financial assets

BNG Bank assesses whether the credit risk on an exposure has increased significantly on an individual basis. The expected credit losses (ECL) is calculated for the following categories of financial assets that are not measured at fair value through the income statement:

- debt instruments measured at amortised cost;
- debt instruments measured at fair value through other comprehensive income;
- loan commitments; and
- financial guarantee contracts.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition. When a modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified asset, the date of modification shall be regarded as the date of initial recognition.

Stage 1: 12-month ECL

BNG Bank recognises an ECL allowance reflecting default events that are possible within the next 12 months for exposures without a significant increase in credit risk (SICR) since initial recognition. In addition, BNG Bank makes use of the Low Credit Risk Exemption (LCRE). This avoids exposures with a low credit risk to move to Stage 2 even when there is a SICR, provided that the increase is such that the total credit risk is still low. In both cases, a 30-day past due period acts as a backstop indicator for movement to Stage 2. The 12-month ECL allowance is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and incorporates forward-looking information.

Stage 2: lifetime ECL – performing exposures

BNG Bank recognises an ECL allowance reflecting default events that are possible during the remaining lifetime of the financial assets for exposures which have had a significant increase in credit risk since initial recognition, but which are not considered credit-impaired. This mainly includes exposures with a credit rating that is not considered to be investmentgrade and for which the credit rating dropped at least one notch since initial recognition.

In addition, it also includes exposures with payment arrears between 30 and 90 days, as well as exposures subject to forbearance measures. Other qualitative factors considered are significant adverse changes in business, financial and/or economic conditions in which the borrower operates and actual or expected significant adverse change in operating results of the borrower. The Stage 2 lifetime ECL is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and incorporates forward-looking information.

Stage 3: lifetime ECL – non-performing exposures

BNG Bank assesses on an individual exposure level whether exposures are non-performing which is fully aligned with the definition of default. This assessment is based on whether one or more events have occurred that have a detrimental impact on the estimated future cash flows of that asset. This includes, but is not limited to, exposures with payment arrears exceeding 90 days. In the event that BNG Bank determines that a counterparty is in default, all related financial assets are considered to be in Stage 3. For exposures that have become non-performing, the Bank recognises a lifetime ECL that is determined by taking into account all relevant information, including any collateral or guarantees that apply to the exposure at hand. An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria. This will be assessed for each instrument individually.

Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information, as well as forward-looking analysis. BNG Bank also makes use of the Low Credit Risk Exemption (LCRE) in order to avoid exposures to move to Stage 2 even when there is a significant increase in credit risk, as long as the total credit risk is still low. An exposure will always migrate to a higher probability of default as asset quality deteriorates.

If asset quality improves up to a point that there is no longer any question of SICR since origination, the ECL allowance reverts from lifetime ECL to 12-month ECL. The allowance for these financial assets is based on a 12-month ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Classification of ECL

The classification of the ECL depends on the type of instrument and is as follows:
- Financial assets that are performing at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to BNG Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- Financial assets that are non-performing at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ECLs are recognised using a net impairment of financial assets account in the income statement. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the impairment charge in the income statement, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

Impact of COVID-19 pandemic

Based on the experience that we gained during the COVID-19 pandemic, the weights of the scenarios have been adjusted compared to the 2020 scenarios. In 2020, BNG Bank implemented an additional component in response to the COVID-19 pandemic. The so-called Exponentially Weighted Moving Average (EWMA) prevents shocks, observed during the COVID-19 pandemic, as a result of relevant data faling out of the forward looking window. In the first half of 2021 BNG Bank decided to decrease the EWMA component from 48% in 2020 to 0%, which means the EWMA has no impact. In order to clarify the impact of this, in the sensitivity analysis, an additional scenario has been calculated based on the assumptions of 2020.

Hedge accounting

The Bank's derivative instruments used to manage interest rate and currency risk are recognised on a trade-date basis at fair value as derivative either on the asset or on the liability side of the balance sheet. BNG Bank applies micro hedge accounting in accordance with IFRS 9 when the conditions set out by the standard are met. The hedge accounting is based on a clearly documented relationship between the item hedged and the hedging instrument. When there is a high (negative) correlation between the hedging instrument on the one hand and the value change of the hedged item or the cash flows generated by the hedged item on the other hand, the hedge is regarded as effective. The hedging relationship is documented at the time that the hedge transaction is entered into. The hedging relationship is then continually tested in order to assess whether it meets the hedge accounting requirements.

In principle, BNG Bank only uses derivatives as hedging instruments. They are mandatorily measured at fair value in the balance sheet. The counterpart in the hedging relationship is the hedged item, which is generally recognised at amortised cost. Insofar as the hedge accounting relationship is effective, hedge accounting enables the Bank to neutralise the difference in measurement and result recognition between the hedging instruments and the hedged items. BNG Bank applies both fair value and cash flow hedge accounting.

Fair value hedge accounting

BNG Bank applies two types of fair value hedge accounting: micro hedge accounting and portfolio hedge accounting.

Micro hedge accounting

When a derivative is designated as the hedging instrument in a hedging relationship, the changes in the fair value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Sometimes, a derivative may be a component of a hybrid financial instrument that includes both the derivative and a host contract. Such embedded derivative instruments are part of a structured financing transaction that is hedged against changes in fair value by means of matching swap contracts. In such cases, both the hedged transaction and the hedging derivative instrument are recognised at fair value with changes in fair value in the statement of comprehensive income or as a value adjustment of the hedged transaction (item). Currently the Bank's fair value hedges mainly relate to swapping fixed to floating rate transactions. The balance sheet items Financial assets measured at fair value through other comprehensive income, Financial assets measured at amortised cost, Funds entrusted and Debt securities are involved.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or BNG Bank decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, BNG Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated.

Portfolio hedge accounting

Portfolio hedge accounting concerns a group of transactions in euros that are hedged for interest rate risk using a portfolio of derivatives. BNG Bank applies portfolio hedge accounting to the majority of long-term fixed-interest loans (Loans and advances item) and a limited number of fixed-interest securities. There is no direct relationship between individual hedged items and hedging instruments, but it is shown at the portfolio level that the derivatives involved offset the value changes in the related assets arising from interest rate movements. Due to the lack of a direct relationship between the assets and the derivatives used for hedging, the value adjustments of the hedged interest rate risk are recognised in the Value adjustments on loans in portfolio hedge accounting balance sheet item.

Cash flow hedge accounting

When a derivative is designated as the hedging instrument in a cash flow hedge relationship, the effective portion of changes in the fair value of the derivative is recognised directly in other comprehensive income and presented in the cash flow hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

The amount recognised in the cash flow hedge reserve is reclassified to the income statement as a reclassification adjustment in the same period as the hedged cash flows affect the income statement. BNG Bank applies cash flow hedge accounting on floating foreign currency transactions and the credit spread of fixed foreign currency transactions. The balance sheet line items Funds entrusted and Debt securities are involved. If the hedge accounting relationship is terminated, the accumulated fair value hedge adjustment is amortised over the remaining term of the financial instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Foreign currency basis spread

Following the adoption of IFRS 9 the forward component of a hedging instrument is no longer part of the hedge relationship. The foreign currency basis spread of a cross-currency interest rate swap is accounted for the same way as the forward element of a forward contract. The change in the foreign currency basis spread of this derivative that relates to the hedged item is recognised in the cost of hedging reserve within equity. The amount accumulated in the cost of hedging reserve is reclassified to the income statement at the same time as the hedged item affects the income statement.

Discontinuance of hedge accounting

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

Recognition and accounting of financial assets and liabilities

Financial assets and liabilities are recognised at settlement date due to the implementation of the new data warehouse. This means that they are recognised from the moment that the Bank is entitled to the benefits or is liable for the obligations arising from the contractual provisions of the financial instrument. This includes both traditional financial instruments (loans, interest-bearing securities and debt securities) and derivatives. Financial assets and liabilities are initially recognised at the transaction price, in other words the fair value plus the transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liability, with the exception of the transactions recognised at fair value. The transactions included in the latter balance sheet item are measured at fair value without taking into account the transaction costs.

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

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

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

Recognition and accounting of derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying prices, indexes or other variables, and typically comprise of instruments such as swaps, forward rate agreements, futures and options. From initial recognition, derivatives are in principle carried at fair value and classified as held for trading. The carrying value of a derivative is remeasured at fair value throughout the life of the contract and any fair value movements are recognised under the Result on financial transactions item in the income statement. Derivatives are included under assets if they have a net positive fair value or under liabilities for a net negative fair value, with the exception of derivative transactions entered under a 'central clearing house'. For these derivatives, netting takes place of the fair value of all derivatives with a financial counterparty that acts as an intermediary between the Bank and the 'central clearing house'. If the derivative transactions are entered under a central clearing house and are also part of a Settle to Market (STM) derivative contract the derivative position is also netted with the collateral posted/received.

Separated derivatives embedded in financial liabilities

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

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

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

Non-separated derivatives embedded in financial liabilities

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

Fair value of financial instruments

The fair value is the price (not adjusted for transaction costs) which, regardless of the company's intention or capability, would be received if a financial asset was sold, or the price that would be paid if a financial liability was transferred in an orderly transaction between market participants as at the measurement date under the current market conditions. The starting point is that the valuation must be viewed from the perspective of market parties, for which only the specific characteristics and limitations of the financial instrument may be taken into consideration. Fair value is based on quoted market prices in active markets or, if unavailable, on modelled valuation techniques. Valuation techniques are generally used to determine the fair value of unlisted assets and liabilities and OTC derivatives. This concerns generally accepted techniques and methods such as option pricing models, discounted cash flows, forward pricing and credit and liquidity spreads. Contractual conditions are taken into account and available objective market data are used, such as market-based yield curves for discounting, correlations, volatilities, cross-currency basis spreads, credit spreads, valuation adjustments and other factors, estimates and assumptions which market parties would use to determine the price. Fair value 'level 3' valuations are based in part on assumptions that are not observable in the market. For a detailed description of how the fair value measurement is determined, please refer to section 'Fair value of financial instruments' in the consolidated financial statements.

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

Amounts due to banks, cash collateral received, debt securities, funds entrusted and subordinated debts
Borrowings (including repurchase transactions) and debt securities are carried in the balance sheet at amortised cost unless the liabilities are measured at fair value through the income statement. As regards transactions in Debt securities and Funds entrusted that are involved in a micro fair value hedge accounting relationship, the amortised cost is adjusted for the effective portion of the movements in fair value arising from interest rate risk. Any repurchased obligations are removed from the balance sheet, and the difference between the carrying amount and the transaction value is recognised in the income statement.

According to TLTRO III funding, the non-market based interest rate including the expected bonus rate is used to calculate the interest result of the TLTRO transactions in both 2021 and 2020. If the conditions of the bonus rate are not met, this will be reflected in a reversal of interest result and a decline of the amortised cost value on the balance sheet. The amortised cost value and effective interest rate is being calculated based on the ECB deposit facility rate including the bonus rate, because it is expected that BNG Bank is able to meet the conditions for this bonus.

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

Property and equipment
All property and equipment owned by the Bank is valued at cost less accumulated depreciation. Property relates to land, buildings and technical installations. Equipment relates to office machinery, inventory, furniture, hardware, software and artworks. The depreciation period is determined on the basis of the estimated useful life of the assets (see note 11 to the consolidated financial statements). The estimated useful life and residual value are reviewed annually. Depreciation is calculated on a straight-line basis and charged to the income statement. Land is not depreciated.

Impairment of non-financial assets
The carrying amount of BNG Bank's non-financial assets (property and equipment, investments in associates and joint ventures), with the exception of deferred tax assets, is assessed when there is an objective indication of impairment. To determine impairments, an estimate is made of the realisable value and individual assets are divided into groups at the lowest level at which future cash flows can be identified (cash flow generating units). BNG Bank has not recognised any goodwill. The realisable value of an asset or cash flow generating unit is equal to the higher of the value in use and the fair value minus selling costs.

In determining the value in use, the present value of the estimated future cash flows is calculated using a discount rate before tax which reflects both the current market appraisals of the time value of money and the specific risks relating to the asset. Impairments recognised in respect of cash flow generating units are first offset against the carrying amount of any goodwill allocated to the units and subsequently offset pro rata against the carrying amount of the other assets of the unit (or group of units). Non-financial assets which were subject to impairment are reassessed at each balance sheet date. Impairment of a non-financial asset, with the exception of goodwill included in non-financial assets, is reversed through the income statement (Impairments item) if it is possible to establish reliably that the negative effects of the indication for the impairment recognised earlier are mitigated. An impairment is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount minus depreciation or amortisation, which would have been determined if no impairment had been recognised.

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

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

Taxes
The nominal tax amount is calculated on the basis of the statutory nominal tax rates and the tax legislation in force. Tax rate adjustments relating to previous years, participation exemptions and non-deductible costs are also applied when determining the effective tax amount in the income statement. Group companies that form part of the fiscal unit use the applicable nominal tax rate.

Deferred tax assets and deferred tax liabilities are both carried at nominal value. All deferred tax assets and liabilities are stated in the accounts of the parent company of the fiscal unit. Deferred tax assets and liabilities are recognised as temporary differences between the carrying amounts on the one hand and the tax bases of assets and liabilities on the other. The bank has registered deferred tax assets and liabilities for the actuarial results for the employee benefits provision, for the revaluation reserve, for own credit adjustments and for the cash flow hedge reserve.

These deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods in which they are expected to be realised. Differences in deferred tax assets and liabilities resulting from a change in tax rates are recognised in the income statement. Deferred tax assets are recognised only to the extent to which taxable profits are expected to be available in the near future to compensate for these temporary differences. Tax assets and liabilities, both current and deferred separately, are netted if they concern the same tax authority and the same type of tax and if netting of these assets and liabilities is permitted by law.

Equity

The balance sheet is drawn up before profit appropriation. This means that the total net result for the financial year is presented in equity. The revaluation reserve for financial assets at fair value through other comprehensive income and the cash flow hedge reserve are adjusted by recognising a deferred tax liability.

Hybrid capital

Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. BNG Bank has the unilateral contractual option to call the hybrid capital issued. As per May 2021 the tranches issued in 2015 (a nominal amount of EUR 424 million) can be repurchased at par subsequently in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

Revaluation reserve

Equity includes a revaluation reserve in which the unrealised changes in fair value of Financial assets at fair value through other comprehensive income, net of tax, are recognised. In the event of a sale of a financial instrument, the cumulative revaluation is recognised in Results on financial transactions. The effective portion of fair value changes in transactions involved in hedge accounting is either credited or charged to the income statement during the period in which the transactions are involved in a hedge accounting relationship.

Own credit adjustment

Financial liabilities at fair value through the income statement are recognised at the relevant funding curve, including the spread for ‘own credit risk’. The Bank recognises the amount related to changes in fair value attributable to change in credit risk of financial liabilities designated at fair value through the income statement as Own Credit Adjustment (net of deferred tax assets and liabilities) in equity.

Cost of hedging reserve

Under IFRS 9, the foreign currency basis spread of a hedging instrument is no longer part of a hedge relationship. The cost of hedging reserve records movements in foreign currency basis spreads in cross-currency (interest rate) swaps involved in hedge accounting. The amount accumulated in the cost of hedging reserve is reclassified to the income statement at the same time as the hedged item affects the income statement.

Cash flow hedge reserve

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

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

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

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

This item also includes sales and buy-out results for financial instruments measured at fair value. These realised results consist of the difference between the net proceeds of the sale and the carrying amount, including the release of value movements accumulated in equity. Returns from the participating interests (equity instruments) measured at fair value are also recognised under this item. Finally, differences between the fair value on initial recognition and the transaction price regarding to level 1 and 2 financial instruments measured at fair value are also included.

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

Other results
The other results includes the results not relating to BNG Bank's core operational activities.

Depreciation
Please refer to the Property and equipment section.

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

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

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

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

Notes to the consolidated financial statements

Amounts in millions of euros

Note 34 includes a breakdown of balance sheet values by remaining contractual maturity (due on demand and not due on demand).

Notes 31 and 37 provide an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2021.

1 Cash and balances held with central banks

	31-12-2021	31-12-2020
Cash on hand	0	0
Current account balances with the central bank (due on demand)	9,264	2,312
Total	**9,264**	**2,312**

2 Amounts due from banks

The Amounts due from banks item includes all receivables from banks measured at amortised cost.

	31-12-2021	31-12-2020
Short-term loans and current account balances	23	5
Long-term lending	140	115
Repos	0	0
Total	**163**	**120**

We refer to section 'Credit Risk' for a detailed overview of repos under netting conditions.

3 Cash collateral posted

The cash collateral is posted with third parties under netting agreements and as such is not freely available to BNG Bank.

In June 2020, a discounting switch from EONIA to €STR has taken place at clearinghouses as part of the Interest Rate Benchmark Reform. To compensate the lower return on cash collateral a cash payment was received. This amount is stated as part of 'Other liabilities' and amounts to EUR 167 million as per 31 December 2021. This amount will be amortised over 50 years which is equal to the average remaining life of underlying derivatives.

4 Financial assets at fair value through the income statement

This item includes:
- Financial assets mandatorily measured at fair value through profit or loss. This concerns financial assets that have failed to pass the SPPI test;
- Financial assets designated as measured at fair value through profit or loss.

	31-12-2021	31-12-2020
Mandatorily measured at FVTPL		
Loans and advances	69	89
Designated as measured at FVTPL		
Loans and advances	464	538
Interest-bearing securities	850	825
Total	**1,383**	**1,452**

The total redemption value of these loans and advances and interest-bearing securities at year-end 2021 is EUR 979 million (2020: EUR 939 million). Note 25 explains the changes in fair value recognised through the income statement.

5 Derivatives

This balance sheet item includes the positive fair value of derivatives settled and not settled-to-market.

Note 25 explains the changes in fair value recognised through the income statement.

	31-12-2021	31-12-2020
Derivatives not involved in a hedge accounting relationship	267	196
Derivatives involved in a portfolio hedge accounting relationship	2,248	3,713
Derivatives involved in a micro hedge accounting relationship	3,156	4,601
Receivables related to STM derivative contracts	14	30
Total	**5,685**	**8,540**

All derivatives are part of an economic hedge, the bank does not have speculative positions in derivatives.

6 Financial assets at fair value through other comprehensive income

This includes purchased interest-bearing securities that are held within the Hold to Collect and Sell business model and for which the bank has not used the fair value option.

	31-12-2021	31-12-2020
Governments	5,267	6,312
Supranational organisations	1,405	1,417
Credit institutions	1,900	2,009
Total	**8,572**	**9,738**

Transfers without derecognition

At year-end 2021, BNG Bank had transferred EUR 218 million (2020: 222 million) of financial assets at fair value through other comprehensive income without derecognition in repurchase transactions.

7 Interest-bearing securities at amortised cost

This includes purchased interest-bearing securities that are held within the Hold-to-Collect business model and for which the bank has not used the fair value option.

	31-12-2021	31-12-2020
Governments	1,318	1,491
Other financial corporations	5,295	5,216
Non-financial corporations	1,021	1,179
Allowance for credit losses	-2	-6
Total	**7,632**	**7,880**

At year-end 2021, BNG Bank had transferred EUR 520 million (2020: 139 million) of interest-bearing securities at amortised cost without derecognition in repurchase transactions.

8 Loans and advances at amortised costs

The Loans and advances item includes short-term and long-term loans to clients insofar as they pass the SPPI test, as well as current account debit balances held by clients. All positions are held within the Hold-to-Collect business model.

	31-12-2021	31-12-2020
Short-term loans and current account balances	2,594	3,485
Long-term lending	87,381	85,667
Total loans and advances	**89,975**	**89,152**
Allowance for credit losses	-237	-210
Total	**89,738**	**88,942**

9 Value adjustments on loans in portfolio hedge accounting

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

	31-12-2021	31-12-2020
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	20,816	16,462
Movements in the unrealised portion in the financial year	-6,021	6,094
Amortisation in the financial year	-1,164	-1,581
Realisation from sales in the financial year	-76	-159
Closing balance	**13,555**	**20,816**

10 Associates and joint ventures

	31-12-2021	31-12-2020	31-12-2021	31-12-2020
	Participating share		Balance sheet value	
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Joint ventures				
BNG Gebiedsontwikkeling BV, various immaterial participations			25	28
Total			**28**	**31**

BNG Gebiedsontwikkeling B.V. is, as a 100% subsidiary, part of the consolidated financial statements. The joint ventures referred to are held by BNG Gebiedsontwikkeling B.V.

The amount presented as "held for sale" relate to a participation held by BNG gebiedsontwikkeling which is likely to be sold within a year from balance sheet date.

For summarised financial information on associates and joint ventures, please refer to 'Related parties'-section of the consolidated financial statements.

11 Property and equipment

	2021	2020	2021	2020	2021	2020	2021	2020
	Property		Equipment		Right-of-use-asset		Total	
Historical cost								
Opening balance	**49**	**49**	**26**	**24**	**2**	**2**	**77**	**75**
Investments	-	-	1	2	-	-	1	2
Value as at 31 December	**49**	**49**	**27**	**26**	**2**	**2**	**78**	**77**
Depreciation								
Accumulated depreciation as at 1 January	38	38	22	19	0	0	60	57
Depreciation during the year	1	0	2	3	0	0	3	3
Accumulated depreciation as at 31 December	**39**	**38**	**24**	**22**	**0**	**0**	**63**	**60**
Total	**10**	**11**	**3**	**4**	**2**	**2**	**15**	**17**

Estimated useful life	
Buildings	33 ⅓ years
Technical installations	15 years
Machinery and inventory	5 years
Right-of-use asset	5 years
Hardware and software	3 years

No property or equipment is pledged as security of liabilities.

12 Other assets

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

13 Amounts due to banks

	31-12-2021	31-12-2020
Current account balances	1	1
Central bank funding (TLTRO)	18,350	10,950
Deposits	666	715
Private loans	508	555
Total	**19,525**	**12,221**

An amount of EUR 18.350 million relates to ECB's thrid Targeted Longer-Term Refinancing Operation (TLTRO). New transactions took place in March 2021 for an amount of EUR 4 billion, in June 2021 for an amount of EUR 2 billion and in September 2021 for an amount of EUR 1.5 billion. As per year-end 2021 the total TLTRO consists of five transactions. All these floating rate notes have a maturity of three years, from the date of participating in a tranche, with an early redemption option after each year.

14 Cash collateral received

The cash collateral is received from third parties under netting agreements and as such is not freely available to BNG Bank.

15 Financial liabilities at fair value through the income statement

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

	31-12-2021	31-12-2020
Publicly placed debt securities	292	387
Privately placed debt securities	18	269
Total	**310**	**656**

The total redemption value of the debt securities at year-end 2021 is EUR 265 million (2020: EUR 490 million). The difference between the financial liability's carrying amount and the redemption value at year-end 2021 is EUR 44 million (2020: EUR 166 million). Financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark-up for 'own credit risk'. The total change in value (before tax) was EUR 4 million positive (2020: EUR 6 million positive). Changes in fair value due to own credit risk are recognised through other comprehensive income. These changes are determined by comparing the valuation using the relevant funding curve including a mark-up for 'own credit risk' and the valuation using the relevant funding curve without this mark-up. Note 25 explains the changes in value recognised through the income statement.

16 Derivatives

This balance sheet item includes the negative fair value of derivatives not settled-to-market and the fair value of payables related to settle-to-market derivatives. Note 25 explains the changes in fair value recognised through the income statement.

	31-12-2021	31-12-2020
Derivatives not involved in a hedge accounting relationship	724	1,131
Derivatives involved in a portfolio hedge accounting relationship	14,878	23,525
Derivatives involved in a micro hedge accounting relationship	1,332	2,179
Payables related to STM derivative contracts	1	130
Total	**16,935**	**26,965**

17 Debt securities

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

	31-12-2021	31-12-2020
Bond loans	90,482	92,655
Commercial Paper	3,475	7,611
Privately placed debt securities	7,398	8,349
Total	**101,355**	**108,615**

18 Funds entrusted

	31-12-2021	31-12-2020
Current account balances	2,799	2,779
Short-term deposits	321	281
Long-term deposits	1,405	2,539
Total	**4,525**	**5,599**

19 Subordinated debt

	31-12-2021	31-12-2020
Subordinated debt	36	35
Total	**36**	**35**

20 Taxes

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

	31-12-2021	31-12-2020
Current tax assets	-	1
Current tax liability	-32	-
Deferred tax liabilities	-77	-98
Total	**-109**	**-97**

BNG Bank and the Dutch tax authorities have concluded a new bilateral agreement ('vaststellingsovereenkomst') on 11 november 2021 in accordance with IFRS 9, for the period 2021-2023. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through other comprehensive income. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised gains have arisen.

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

	2021	2020
Nominal and effective tax rate		
Profit before tax	350	332
Tax levied at the nominal tax rate	-88	-83
Tax adjustment from previous years	-	-
Participation exemption	-	0.5
Deductible interest on hybrid capital	6	-
Non-deductible costs (bank levy and thin cap)	-32	-28.7
Effective tax	**-114**	**-111**
Nominal tax rate	25.0%	25.0%
Effective tax rate	32.5%	33.4%

In 2021 the lower tax rate decreased from 16.5% to 15%, the upper rate maintained 25%. The deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

2021

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-29	1		-28
Cash flow hedge reserve	-65	20		-45
Own Credit Adjustment	-1	-		-1
Hybrid capital	-4	0		-4
Employee benefits provision	1	-		1
Total	**-98**	**21**	**-**	**-77**

2020

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-24	-5	-	-29
Cash flow hedge reserve	-53	-12	-	-65
Own Credit Adjustment	-2	1	-	-1
Hybrid capital	0	-4	-	-4
Employee benefits provision	1	-	-	1
Total	**-78**	**-20**	**0**	**-98**

21 Other liabilities

	31-12-2021	31-12-2020
Employee benefits provision	2	2
Other liabilities	214	213
Total	**216**	**215**

The employee benefits provision is made up of two parts, a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2020: EUR 1 million) and a provision for vitality leave of EUR 1 million (2020: EUR 1 million). Both provisions have a long-term character.

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

	2021	2020
Employee benefits provision		
Net liability as at 1 January	2	2
Movements in the provision	0	0
Net liability as at 31 december	**2**	**2**

The other liabilities are mainly composed of amounts payable related to derivatives and other financial transactions which are settled in the next period.

22 Group equity

Since BNG Bank has no minority interests after consolidation, the entire consolidated equity, excluding hybrid capital, is attributable to shareholders. The items included in equity are explained in note 22 of the company financial statements.

	31-12-2021	31-12-2020
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	83	86
Cash flow hedge reserve	1	11
Own Credit Adjustment	3	5
Cost of hedging	125	184
Retained earnings	3,736	3,712
Unappropriated profit	236	221
Equity attributable to shareholders	**4,329**	**4,364**
Hybrid capital	733	733
Total	**5,062**	**5,097**

	2021	2020
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	2.28	1.81
Proposed dividend		
- Primary dividend pursuant to the Articles of Association	7	7
- Proposed dividend above the primary dividend	120	94
Total	**127**	**101**

The proposed dividend distribution for 2021 takes into account the EUR 25 million compensation (before tax) that has already been paid on the hybrid capital in 2021. This payment was charged to the Retained earnings.

Share capital
The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. BNG Bank and its subsidiaries hold no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

Share premium reserve
There were no movements in 2021 and 2020.

Revaluation reserve
At year-end 2021, the revaluation reserve includes EUR 338 million in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which is a part of the Financial assets at fair value through other comprehensive income. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

Cash flow hedge reserve
The effective portion of the unrealised changes in the value of derivatives involved in a cash flow hedge relationship, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The cash flow hedge reserve is adjusted for taxes.

Own Credit Adjustment
The Own Credit Adjustment amounts to EUR 3 million net of taxes (2020: EUR 5 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

Cost of hedging reserve
The cost of hedging reserve records movements in foreign currency basis spreads in crosscurrency swaps involved in hedge accounting and is amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Retained earnings
After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the Retained earnings. Due to the COVID-19 outbreak and the advice of ECB to postpone the dividend payments until 2021 the dividend of EUR 71 for financial year 2019 was not paid in 2020. In 2021, payment of dividend of EUR 71 million for 2019 and EUR 101 million for 2020 to the bank's shareholders were scheduled. Payments took place in March 2021 and in October 2021. Also an amount of EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2021 (2020: EUR 25 million) and charged to the Retained earnings. The Retained earnings include a share premium related to hybrid capital of EUR 0.1 million in total (2020: EUR 0.1 million).

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

Hybrid capital
The bank's hybrid capital amounts to EUR 733 million. The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. Hybrid capital concerns perpetual

loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. The distributed compensation is deductible for corporate income tax. BNG Bank has the unilateral contractual option to call the hybrid capital issued. The tranches issued in 2015 (a nominal amount of EUR 424 million) could be redeemed at par on May 2021. The bank chose not to redeem the tranche, but redemption can be done in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be redeemed every year from May 2022.

23 Interest result

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

Interest expenses calculated by using the effective interest method include all negative interest results from both traditional financial instruments and derivatives involved in hedge accounting, including negative interest revenue on financial assets. The costs of borrowing as well as other interest-related charges are also recognised.

Other interest revenue and expenses consist mainly of interest results of derivatives not involved in hedge accounting and interest results of financial assets and liabilities measured at fair value.

	2021	2021	2020	2020
Interest revenue				
Interest revenue calculated by using the effective interest method:				
- Financial assets at amortised cost	1,861		2,054	
- Financial assets at fair value through other comprehensive income	70		113	
- Derivatives involved in hedge accounting	2,102		2,276	
- Negative interest expenses on financial liabilities	162		71	
		4,195		4,514
Other interest revenue:				
- Financial assets designated at fair value through the income statement	54		34	
- Financial assets mandatory at fair value through the income statement	2		3	
- Derivatives not involved in hedge accounting	160		325	
- Other	-		-	
		216		362
Total interest revenue		**4,411**		**4,876**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
- Financial liabilities at amortised cost	1,285		1,893	
- Derivatives involved in hedge accounting	2,352		2,291	
- Negative interest expenses on financial assets	282		129	
		3,919		4,313
Other interest expenses				
- Financial liabilities designated at fair value through the income statement	25		30	
- Derivatives not involved in hedge accounting	57		48	
- Other	3		8	
		85		86
Total interest expenses		**4,004**		**4,399**
Total interest result		**407**		**477**

The interest revenue in 2021 includes EUR 11 million (2020: EUR 2 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 7 and 8) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

The interest revenue on the TLTRO-III transaction amounts to EUR 101 million (2020: EUR 50 million) and will be received on maturity date. The net interest rate including the conditional bonus rate is used to calculate the interest result of the TLTRO transactions in 2021. If the conditions of the bonus rate are not met, as is the case for the period 24 June 2020 to 23 June 2021, the interest result will be reversed. For this period, the Bank was required to reverse EUR 57 million in the second half year.

24 Commission result

Commission income

This item includes income from services provided to third parties.

	2021	2020
Income from loans and credit facilities	11	19
Income from payment services	9	10
Total	**20**	**29**

Commission expenses

This item comprises expenses totalling EUR 3 million (2020: EUR 4 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 Result on financial transactions

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

		2021		2020
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	-13		-24	
- Structured loans	4		-4	
		-9		-28
Result on hedge accounting				
- Portfolio fair value hedge accounting	65		-9	
- Micro fair value hedge accounting	-9		2	
- Micro cash flow hedge accounting	0		-3	
		56		-10
Change in counterparty credit risk of derivatives (CVA/DVA)		16		-3
Realised sales and buy-out results		59		39
Other market value changes		-22		-15
Total		**100**		**-17**

In 2021, the result on financial transactions was positively affected by hedge accounting and realised results. The realised results of EUR 59 million (2020: 39 million) are mainly due to on balance positive results on the sales from the liquidity portfolio of the bank.

The unrealised results amounted to EUR 41 million positive (2020: 56 million negative), mainly due to the increase of long-term interest rates. Also, the lower credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a less negative result of market value changes compared to 2020. In 2021 the result amounted to EUR 13 million negative (2020: 24 million negative). In 2020, these spreads were negatively impacted by the market volatility that followed on the start of the pandemic.

26 Results from associates and joint ventures

	2021	2020
Associates	1	1
Joint ventures	3	2
Total	**4**	**3**

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

27 Other results

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

28 Staff costs

	2021	2020
Wages and salaries	32	29
Pension costs	6	5
Social security costs	3	3
Additions to the employee benefits provision	0	0
Other staff costs	16	12
Total	**57**	**49**

The increase in staff costs is related to the increase of staff and costs of external hires.

There was no variable remuneration of individual staff members in 2021 and 2020. We refer to section 'Related parties' for the remuneration of the executive board.

29 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, consultancy costs, training expenses and IT expenses. The total other administrative expenses for 2021 amounted to EUR 47 million (2020: EUR 46 million).

The fees paid to independent auditors are also included in Other administrative expenses. In conformity with Section 382a of Part 9, Book 2 of the Dutch Civil Code, a breakdown of the fees paid to the independent auditors for audits and audit-related and non-audit-related services is given in note 32 to the company financial statements.

30 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 11). In total, the depreciation charges amounted to EUR 3 million in 2021 (2020: EUR 3 million).

31 Net impairment losses on financial assets

The impairments in 2021 amounted to a loss of EUR 20 million in the income statement (2020: EUR 16 million loss). The increase of impairments are mainly due to the the transfer of items to Stage 3 as a result of individual assesments. The more positive economic outlook result in a switch of items from Stage 2 to Stage 1. Also, the probability of default decreased, which result in a lower amount of impairment.

2021

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	3	1	12	16
- Decreases in allowances due to derecognition	-4	-1	-12	-17
- Changes in allowances due to changes in credit risk (net)	-5	-23	49	21
	-6	**-23**	**49**	**20**
Impairment results not due to movements in allowances:				
- Freefall in allowance due to write-off	-	-	-1	-1
- Reversal of impairment due to cash flows received from past write-offs	-	-	1	1
- Impairments due to write-offs	-	-	-	-
	-	**-**	**0**	**0**
Net impairment result on financial assets	**-6**	**-23**	**49**	**20**

2020

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	8	3	0	11
- Decreases in allowances due to derecognition	-6	-3	-3	-12
- Changes in allowances due to changes in credit risk (net)	2	-5	20	17
	4	**-5**	**17**	**16**
Impairment results not due to movements in allowances:				
- Reversal of impairment due to cash flows received from past write-offs	-	-	0	-
- Impairments due to write-offs	-	-	-	-
	-	**-**	**-**	**-**
Net impairment result on financial assets	**4**	**-5**	**17**	**16**

Movement in allowances for expected credit losses

2021

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	3	1	12	16
- Decreases in allowances due to derecognition	-4	-1	-12	-17
- Changes in allowances due to changes in credit risk (net)	-5	-23	49	21
	-6	**-23**	**49**	**20**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs	-	-	-	-
	-	**-**	**-**	**-**
Total movements in allowances	**-6**	**-23**	**49**	**20**

2020

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	8	3	0	11
- Decreases in allowances due to derecognition	-6	-3	-3	-12
- Changes in allowances due to changes in credit risk (net)	2	-5	20	17
	4	**-5**	**17**	**16**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs	-	-	-	0
	0	**0**	**0**	**0**
Total movements in allowances	**4**	**-5**	**17**	**16**

Note 37 provides an overview of the breakdown of financial assets subject to impairment into impairment stages.

32 Net impairment losses on associates and joint ventures

	2021	2020
Impairment of associates and joint ventures	0	1
Reversal of impairment of associates and joint ventures	-2	0
Total	**-2**	**1**

In 2021, no impairments on BNG Gebiedsontwikkeling participations occured. Reversal of impairments on participations amounted to EUR 2 million positive (2020: EUR 0 million). Participations are valued on a going concern basis.

33 Contribution to resolution fund and bank levy

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 1 million payable for 2021 (2020: EUR 8 million) was paid in June 2021 and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax rate. BNG Bank is due to pay the bank levy in October of every year, which for 2021 amounted to EUR 53 million (2020: EUR 34 million). The calculation of the levy is stated in note 31 of the Company financial statements.

34 Breakdown of balance sheet value by remaining contractual maturity of financial instruments

31-12-2021

	Due on demand	up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	9,264					9,264
Amounts due from banks	23	2	13	54	71	163
Cash collateral posted		12,993				12,993
Financial assets at fair value through the income statement		40	104	501	738	1,383
Derivatives		186	251	1,589	3,659	5,685
Financial assets at fair value through other comprehensive income		85	150	2,260	6,077	8,572
Interest-bearing securities at amortised cost		149	654	4,765	2,064	7,632
Loans and advances	929	3,412	7,993	28,211	49,193	89,738
Value adjustments on loans in portfolio hedge accounting		9	82	1,209	12,255	13,555
Current tax assets						0
Other assets		21				21
Total assets	**10,216**	**16,897**	**9,247**	**38,589**	**74,057**	**149,006**

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Amounts due to banks	1	682	8	18,472	362	19,525
Cash collateral received		984				984
Financial liabilities at fair value through the income statement		59	64	24	163	310
Derivatives		101	426	1,094	15,314	16,935
Debt securities		7,697	10,579	43,163	39,916	101,355
Funds entrusted	2,800	343	291	439	652	4,525
Subordinated debt		1	0	27	8	36
Current tax liabilities			32			32
Deferred tax liabilities			4	15	58	77
Other liabilities		61	8	31	116	216
Total liabilities	**2,801**	**9,928**	**11,412**	**63,265**	**56,589**	**143,995**

31-12-2020

	Due on demand	up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	2,312					2,312
Amounts due from banks	4	2	9	45	60	120
Cash collateral posted		20,361				20,361
Financial assets at fair value through the income statement		66	52	344	990	1,452
Derivatives		255	232	1,918	6,135	8,540
Financial assets at fair value through other comprehensive income		165	185	4,435	4,953	9,738
Interest-bearing securities at amortised cost		227	637	3,914	3,102	7,880
Loans and advances	951	4,195	8,623	29,677	45,496	88,942
Value adjustments on loans in portfolio hedge accounting		11	91	1,608	19,106	20,816
Current tax assets			1			1
Other assets		149				149
Total assets	**3,267**	**25,431**	**9,830**	**41,941**	**79,842**	**160,311**
Amounts due to banks	1	656	83	11,100	381	12,221
Cash collateral received		858				858
Financial liabilities at fair value through the income statement		44	72	210	330	656
Derivatives		550	571	2,359	23,485	26,965
Debt securities		12,336	10,013	49,727	36,539	108,615
Funds entrusted	2,779	439	1,119	576	686	5,599
Subordinated debt		1		19	15	35
Current tax liabilities						-
Deferred tax liabilities			5	20	73	98
Other liabilities		188	23	3	1	215
Total liabilities	**2,780**	**15,072**	**11,886**	**64,014**	**61,510**	**155,262**

35 Breakdown of financial instruments by category

31-12-2021

	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
Cash and balances held with central banks	9,264	-	-	**9,264**
Amounts due from banks	163	-	-	**163**
Cash collateral posted	12,993	-	-	**12,993**
Financial assets at fair value through the income statement	-	1,383	-	**1,383**
Derivatives	-	5,685	-	**5,685**
Financial assets at fair value through other comprehensive income	-	-	8,572	**8,572**
Interest-bearing securities at amortised cost	7,632	-	-	**7,632**
Loans and advances	89,738	-	-	**89,738**
Value adjustments on loans in portfolio hedge accounting	13,555	-	-	**13,555**
Total assets	**133,345**	**7,068**	**8,572**	**148,985**
Amounts due to banks	19,525	-	-	**19,525**
Cash collateral received	984	-	-	**984**
Financial liabilities at fair value through the income statement	-	310	-	**310**
Derivatives	-	16,935	-	**16,935**
Debt securities	101,355	-	-	**101,355**
Funds entrusted	4,525	-	-	**4,525**
Subordinated debt	36	-	-	**36**
Total liabilities	**126,425**	**17,245**	**-**	**143,670**

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	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
Cash and balances held with central banks	2,312	-	-	2,312
Amounts due from banks	120	-	-	120
Cash collateral posted	20,361	-	-	20,361
Financial assets at fair value through the income statement	-	1,452	-	1,452
Derivatives	-	8,540	-	8,540
Financial assets at fair value through other comprehensive income	-	-	9,738	9,738
Interest-bearing securities at amortised cost	7,880	-	-	7,880
Loans and advances	88,942	-	-	88,942
Value adjustments on loans in portfolio hedge accounting	20,816	-	-	20,816
Total assets	**140,431**	**9,992**	**9,738**	**160,161**
Amounts due to banks	12,221	-	-	12,221
Cash collateral received	858	-	-	858
Financial liabilities at fair value through the income statement	-	656	-	656
Derivatives	-	26,965	-	26,965
Debt securities	108,615	-	-	108,615
Funds entrusted	5,599	-	-	5,599
Subordinated debt	35	-	-	35
Total liabilities	**127,328**	**27,621**	**-**	**154,949**

36 Reconciliation of movements of liabilities to cash flows arising from financing activities

2021

	Financial liabilities at fair value through the income statement	Debt securities	Subordinated debt	Hybrid capital	Total
Balance at 1 January 2021	**656**	**108,615**	**35**	**733**	**110,039**
Cash flows from financing activities					
- Proceeds from financing activities	-	284,877	-	-	284,877
- Repayments on financing activities	-347	-291,401	-	-	-291,748
- Interest and other cash flows	-7	-1,225	-1	-	-1,233
- Compensation on hybrid capital	-	-	-	-25	-25
	-354	**-7,749**	**-1**	**-25**	**-8,129**
Non-cash changes					
Unrealised results:					
- Foreign exchange movement	26	2,986	-	-	3,012
- Fair value changes	-38	(3,744)	-	-	-3,782
Realised results	20	1,247	2	-	1,269
	8	**489**	**2**	**-**	**499**
Compensation distributed from Other reserves	-	-	-	25	25
Balance at 31 December 2021	**310**	**101,355**	**36**	**733**	**102,434**

2020

	Financial liabilities at fair value through the income statement	Debt securities	Subordinated debt	Hybrid capital	Total
Balance at 1 January 2020	**674**	**112,661**	**33**	**733**	**114,101**
Cash flows from financing activities					
- Proceeds from financing activities	-	219,779	-	-	219,779
- Repayments on financing activities	-8	-221,405	-	-	-221,413
- Interest and other cash flows	-15	-1,856	-	-	-1,871
- Compensation on hybrid capital	-	-	-	-25	-25
	-23	**-3,482**	-	**-25**	**-3,530**
Non-cash changes					
Unrealised results:					
- Foreign exchange movement	-42	-3,796	-	-	-3,838
- Fair value changes	17	1,525	-	-	1,542
Realised results	30	1,707	2	-	1,739
	5	**-564**	**2**	**-**	**-557**
Compensation distributed from Other reserves	-	-	-	25	25
Balance at 31 December 2020	**656**	**108,615**	**35**	**733**	**110,039**

37 Impairment of 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.

Stage 3: non-performing exposures.

31-12-2021

		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	9,264	9,264	-	-	-	-	-
Amounts due from banks	163	163	-	-	0	-	-
Cash collateral posted	12,993	12,993	-	-	-	-	-
Financial assets at fair value through OCI[1]	8,572	8,572	-	-	0	-	-
Interest-bearing securities at amortised cost	7,632	7,566	68	-	0	-2	-
Loans and advances	89,738	89,014	412	549	-6	-8	-223
Total	**128,362**	**127,572**	**480**	**549**	**-6**	**-10**	**-223**

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		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	2,312	2,312	-	-	-	-	-
Amounts due from banks	120	120	0	-	0	0	-
Cash collateral posted	20,361	20,361	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,738	9,677	61	-	0	-1	-
Interest-bearing securities at amortised cost	7,880	7,714	172	-	-1	-5	-
Loans and advances	88,942	87,140	1,617	396	-9	-25	-175
Total	**129,353**	**127,324**	**1,850**	**396**	**-10**	**-31**	**-175**

1 The allowance for credit loss for financial assets at FVOCI is included in OCI and not in the (net) carrying amount.

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	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	499	1	1	0	0	-1
Revocable facilities	5,736	69	66	-	-	-
Irrevocable facilities	4,486	1	0	0	0	-
Total	**10,721**	**71**	**67**	**0**	**0**	**-1**

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	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	1,516	1	-	0	0	-
Revocable facilities	3,607	67	1	0	0	-
Irrevocable facilities	5,630	64	-	-2	-2	-
Total	**10,753**	**132**	**1**	**-2**	**-2**	**0**

Movements in allowances and provisions for expected credit losses

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

2021

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-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	-1	-	0
Interest-bearing securities at amortised cost	5	0	0	-3	-	2
Loans and advances	210	15	-16	28	-	237
	216	**15**	**-16**	**24**	**-**	**239**
Provision						
Off-balance sheet commitments	4	0	-1	-2	-	1

2020

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-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	0	0	-1	-	5
Loans and advances	193	8	-6	15	-	210
	200	**8**	**-6**	**14**	**0**	**216**
Provision						
Off-balance sheet commitments	5	2	-5	2	-	4

Modifications of contractual cash flows

There have been no financial assets for which the contractual cash flows have been modified during 2021 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 2021.

Key inputs and assumptions

The Expected Credit Loss(ECL) of the 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 Expected Credit Loss 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 five 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 Financial Restructuring & Recovery department.

Forward-looking macroeconomic information
Historical analysis are performed to identify the key macroeconomic variables, which are provided by the bank's economist on a quarterly basis. Expert judgement is applied. In 2021 the macroeconomic factors applied in determining the probability of default for non-securitisations are the nominal GDP, the unemployment rate, and the employment rate. For securitisations the applied macroeconomic factors are the house price index, the long term interest rate, and debt. Among changes in time of macroeconomic factors, weightings of the scenarios have been adjusted based on the two years experience that we gained during the COVID-19 pandemic.

The pandemic has not yet resulted in additional material payment problems for the bank's clients. In 2020, BNG Bank implemented an additional component to avoid unrealistic results. The so-called Exponentially Weighted Moving Average (EWMA), which prevents shocks as a result of relevant data falling out of the forward looking window. For 2020, the applied EWMA in the non-secutarisations model was 48%. At the evaluation of first half of 2021 BNG Bank decided to decrease the EWMA to 0% which means that the EWMA has no impact.

Non-securitisations

Macro economic variable	Horizon as per 31/12/2021	Horizon as per 31/12/2020
Gross Domestic Product (GDP) for The Netherlands	3 years	3 years
Unemployment rate for The Netherlands	3 years	3 years
Employment rate	3 years	3 years
Scenario	**Weight as per 31/12/2021**	**Weight as per 31/12/2020**
Base scenario	60%	65%
Upward scenario	15%	5%
Downward scenario	25%	30%

Securitisations

Macro economic variable	Horizon as per 31/12/2021	Horizon as per 31/12/2020
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	**Weight as per 31/12/2021**	**Weight as per 31/12/2020**
Base scenario	60%	65%
Upward scenario	15%	5%
Downward scenario	25%	30%

1 Non-profit institutions serving households

Non-performing exposures

BNG Bank applies the following criteria to designate exposures as non-performing:
- 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 as a result of its financial difficulties; and
- 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 changes in the input factors, different scenarios are determined to (re)calculate the size of the credit loss allowances.

Scenario A:

In 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 unchanged compared with the base line calculation.

Scenario B:

In scenario B, the exposures which normally have an LGD of 0% are assigned a 10% LGD. The LGD of exposures that are normally assigned a 10%, 35% or 75% LGD remain unchanged. The EADs, credit ratings and PDs are also unchanged compared with the base line calculation.

Scenario C:

In scenario C, the calculation of the credit loss allowances is performed using ‘Through-the-Cycle’ PDs rather than Point-in-Time PDs. In other words, PDs without incorporation of forward-looking macroeconomic information are used in the calculation. The EADs, credit ratings, stage levels and LGDs are unchanged compared with the base line calculation.

Scenario D:

In scenario D, the calculation of the credit loss allowances is based on an EWMA of 70%. The PDs changed compared to the base line calculation.

Scenario E:

In scenario E, the probability of default is calculated based on an EWMA of 0%. The scenario results in changed PDs and stage levels for non-securitisations only.

Scenario F:

In scenario F, the probability of default is calculated based on an EWMA of 48%. This results in changed PDs and stage levels for non-securitisations.

Scenario G:

In scenario G, the calculation of the credit loss allowances is performed using PDs and stage levels of December 2020.

Scenario H:

In scenario H, a more negative impact of the macro-economic variables is used to calculate the probability of default. This results in changed PDs and stage levels.

As per 31 December 2021 different scenarios are used to calculate the sensitivity (in millions of euros) of the total credit loss allowances.The base line calculation is based on EWMA of 0%, therefore Scenario D is no longer relevant and Scenario E is no longer applicable. In the table below only scenarios with a relevant impact are stated, the impact of all other scenarios is negligible.

31-12-2021

	Actual Balance	Scenario A (1 notch down)	Scenario B (LGD from 0% to 10%)	Scenario C (through-the-cycle PDs)	Scenario F (EWMA of 48%)	Scenario G (PDs of PY)
Allowances						
Cash and balances held with central banks	-	-	0	-	-	-
Amounts due from banks	0	0	0	0	0	0
Financial assets at fair value through OCI	0	0	0	0	0	0
Interest-bearing securities at amortised cost	2	4	3	2	3	3
Loans and advances	237	248	256	240	238	242
	239	**252**	**259**	**242**	**241**	**245**
Provision						
Off-balance sheet commitments	1	1	2	1	1	1

31-12-2020

	Actual Balance	Scenario A (1 notch down)	Scenario B (LGD from 0% to 10%)	Scenario C (through-the-cycle PDs)	Scenario D (EWMA of 70%)	Scenario E (EWMA of 0%)
Allowances						
Cash and balances held with central banks	-	-	-	-	-	-
Amounts due from banks	0	0	0	0	0	0
Financial assets at fair value through OCI	1	1	1	1	1	1
Interest-bearing securities at amortised cost	5	8	6	4	6	6
Loans and advances	210	233	243	206	209	220
	216	**242**	**250**	**211**	**216**	**227**
Provision						
Off-balance sheet commitments	4	6	5	4	4	5

Hedging of risks with derivatives

BNG Bank applies economic hedging in order to mitigate foreign exchange risks and keep interest rate risks at a desired level. To this end, the bank has put in place a system of limits and procedures that is strictly adhered to and is monitored on a daily basis. Foreign exchange and interest rate risks are hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. For accounting purposes, BNG Bank processes this hedging relationship under IFRS by applying micro and portfolio fair value hedging, as well as cash flow hedging. The Accounting principles for the consolidated financial statements section describes the conditions that need to be met before these forms of hedge accounting can be applied.

Micro fair value hedge accounting (MH) is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks and foreign exchange risks when applicable. This form of hedging is applied to nearly all debt securities issued. The foreign exchange risks and interest rate risks are hedged by means of (cross-currency) interest rate swaps. The issues are fully offset against the derivatives so that, on a net basis, the fixed coupons of the issues are converted into variable interest amounts in euros. Both the issues and the accompanying derivatives can contain structures, such as options, which are also fully offset. The revaluation effect of hedged MH transactions with regard to fair value hedging is accounted for in the same balance sheet item as the hedged items.

BNG Bank applies (micro) cash flow hedge accounting to virtually all long-term funding transactions in foreign currencies with a floating coupon in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations.
The bank also applies cash flow hedge accounting to hedge the foreign currency risk of the credit spread of fixed foreign currency transactions. With the exception of voluntary early redemption of funding in foreign currencies or an immediate and complete withdrawal from the banking business, there are no circumstances under which these revaluations can lead to a realised result.

The cross currency basis swap spread is an important building block of the value of cross-currency (interest rate) swaps. The fluctuations of this basis spread can never be part of the hedge relationship. If micro hedging is applied the fluctuations of this basis spread are separated as 'cost of hedging' reserve within equity.

In portfolio fair value hedge accounting (PH), the interest rate risks of a group of transactions in euro are hedged by means of a group of derivatives. The hedging relationship is constructed and controlled at an aggregate level, thus precluding relationships with individual transactions. Within BNG Bank, portfolio hedging, like micro hedging, has been highly effective. Any ineffectiveness that occurs is recognised in the income statement.

The effective part of PH is accounted for in the balance sheet item Value adjustments on loans in portfolio hedge accounting.

Although BNG Bank uses derivatives for economic hedging purposes, it is not possible in all cases to include these in a hedge accounting relationship, as permitted by IFRS. Virtually all derivatives that are not involved in a hedge accounting relationship are hedged economically with a financial instrument which is also recognised at fair value through the income statement. Consequently, in total, the volatility of the result due to interest rate and foreign exchange risks is limited.

The following table shows the maturity profile as at 31 December 2021 of all derivatives based on their notional amounts.

31-12-2021	Up to 1 year	1 to 5 years	Over 5 years	Total	31-12-2020 Up to 1 year	1 to 5 years	Over 5 years	Total
Derivatives involved in portfolio hedge accounting								
Interest rate swaps	7,508	27,304	90,203	125,015	6,529	24,845	75,673	107,047
Derivatives involved in micro hedge accounting								
Interest rate swaps	3,378	23,127	37,528	64,033	3,349	24,875	34,199	62,423
Cross-currency swaps	9,770	18,111	6,568	34,449	9,747	20,520	7,827	38,094
Derivatives not involved in hedge accounting								
Interest rate swaps	533	154	540	1,227	690	784	1,034	2,508
Cross-currency swaps	147	140	427	714	88	169	644	901
FX-swaps	4,337	-	-	4,337	7,985	-	-	7,985
Other derivatives	-18	-571	147	-442	1,154	573	876	2,603
Total	**25,655**	**68,265**	**135,413**	**229,333**	**29,542**	**71,766**	**120,253**	**221,561**

The following table shows the total notional amounts of the derivatives in relation to the fair value.

	31-12-2021		31-12-2020	
	Notional amount	Fair value	Notional amount	Fair value
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	52,281	2,260	21,017	3,250
Derivatives involved in micro hedge accounting				
Interest rate swaps	38,984	1,099	25,298	2,538
Cross-currency swaps	22,134	2,060	20,169	2,285
Derivatives not involved in hedge accounting				
Interest rate swaps	380	23	1,092	40
Cross-currency swaps	368	85	524	158
FX-swaps	4,024	158	102	1
Other derivatives	65	-	340	268
Total derivatives stated as assets	**118,236**	**5,685**	**68,542**	**8,540**
Derivatives involved in portfolio hedge accounting				
Interest rate swaps	72,734	15,393	86,030	25,937
Derivatives involved in micro hedge accounting				
Interest rate swaps	25,049	123	37,125	-1,542
Cross-currency swaps	12,315	1,168	17,925	2,003
Derivatives not involved in hedge accounting				
Interest rate swaps	847	-150	1,416	362
Cross-currency swaps	346	249	377	235
FX-swaps	313	4	7,883	339
Other derivatives	-507	148	2,263	-369
Total derivatives stated as liabilities	**111,097**	**16,935**	**153,019**	**26,965**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2021, this collateral amounted to EUR 1.054 million (2020: EUR 858 million), all in cash.

With regard to derivatives, BNG Bank provided EUR 16.583 million in collateral in 2021 (2020: EUR 22,728 million), of which EUR 13.598 million in cash (2020: EUR 21,193 million) and EUR 2.985 million in interest-bearing securities (2020: EUR 1,535 million).

Fair value hedge accounting

The following table shows the changes in fair value of the hedged items and the hedging instruments due to fair value hedge accounting in the reporting period, used as the basis for recognising ineffectiveness.

31-12-2021

	Gross carrying amount of hedged items	Accumulated amount of fair value adjustments on the hedged items or through OCI	Gains/Losses attributable to the hedged item	Gains/Losses attributable to the hedging instrument	Hedge ineffectiveness
Fair value hedges					
Micro fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	7,754	105	-332	331	-1
Fixed rate bonds in Interest-bearing securities at AC	1,214	211	66	-77	-11
	8,968	**316**	**-266**	**254**	**-12**
Micro fair value hedges (hedged items stated as liabilities)					
Fixed rate loans in Amounts due to banks	-508	-28	26	-27	-1
Fixed rate bonds in Debt securities	-90,555	-2,005	1,990	-1,987	3
Fixed rate loans in Funds entrusted	-42	-4	-25	26	1
	-91,105	**-2,037**	**1,991**	**-1,988**	**3**
Total micro fair value hedges	**-82,137**	**-1,721**	**1,725**	**-1,734**	**-9**
Portfolio fair value hedges (hedged items stated as assets)					
Fixed rate loans in Amounts due to banks	56	0	0	0	0
Fixed rate bonds in Financial assets at FVOCI	802	122	-42	66	24
Fixed rate bonds in Interest-bearing securities at AC	1,344	53	-28	29	1
Fixed rate loans in Loans and advances	81,245	13,502	-7,129	7,169	40
Total portfolio fair value hedges	**83,447**	**13,677**	**-7,199**	**7,264**	**65**
Total fair value hedges	**1,310**	**11,956**	**-5,474**	**5,530**	**56**

31-12-2020

	Gross carrying amount of hedged items	Accumulated amount of fair value adjustments on the hedged items or through OCI	Gains/Losses attributable to the hedged item	Gains/Losses attributable to the hedging instrument	Hedge ineffectiveness
Fair value hedges					
Micro fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	8,780	473	58	-56	2
Fixed rate bonds in Interest-bearing securities at AC	1,406	230	96	-83	13
	10,186	**703**	**154**	**-139**	**15**
Micro fair value hedges (hedged items stated as liabilities)					
Fixed rate loans in Amounts due to banks	-554	-54	-19	19	0
Fixed rate bonds in Debt securities	-93,258	-5,649	529	-542	-13
Fixed rate loans in Funds entrusted	-1,155	-16	91	-91	0
	-94,967	**-5,719**	**601**	**-614**	**-13**
Total micro fair value hedges	**-84,781**	**-5,016**	**755**	**-753**	**2**
Portfolio fair value hedges (hedged items stated as assets)					
Fixed rate bonds in Financial assets at FVOCI	891	164	20	-35	-15
Fixed rate bonds in Interest-bearing securities at AC	1,516	100	22	-22	0
Fixed rate loans in Loans and advances	78,878	20,716	4,490	-4,484	6
Total portfolio fair value hedges	**81,285**	**20,980**	**4,532**	**-4,541**	**-9**
Total fair value hedges	**-3,496**	**15,964**	**5,287**	**-5,294**	**-7**

Cash flow hedge accounting

The following table shows the notional amount and the changes in fair value of the hedging instruments, as well as the gross carrying amounts of the hedged items involved in micro cash flow hedge accounting in the reporting period, used as the basis for recognising ineffectiveness.

31-12-2021	Notional amount of hedging instruments	Gross carrying amount of hedging items		Changes in fair value of hedging		Reclassified as interest result calculated using the effective interest method
		Assets	Liabilities	Effective portion recognised in OCI	Hedge ineffectiveness recognised in profit or loss	
Cash flow hedges						
Micro cash flow hedges						
Cross currency swaps	2,317	20	-2,472	8	0	9
Total cash flow hedges	**2,317**	**20**	**-2,472**	**8**	**0**	**9**

31-12-2020	Notional amount of hedging instruments	Gross carrying amount of hedging items		Changes in fair value of hedging		Reclassified as interest result calculated using the effective interest method
		Assets	Liabilities	Effective portion recognised in OCI	Hedge ineffectiveness recognised in profit or loss	
Cash flow hedges						
Micro cash flow hedges						
Cross currency swaps	2,017	21	-1,996	17	-3	13
Total cash flow hedges	**2,017**	**21**	**-1,996**	**17**	**-3**	**13**

Foreign exchange rates

The following table shows the weighted average FX rates for the major currencies of the final exchange of cross-currency swaps involved in a micro cash flow hedge accounting relationship as at 31 December 2021.

31-12-2021

FX rate	up to 1 year	1 to 5 years	over 5 years	Total
USD to EUR	0.88050	0.85705	0.86837	0.86872
GBP to EUR	1.13969	1.13023	1.29100	1.11276
AUD to EUR	0.66310	0.63360	0.77610	0.66131
CHF to EUR	0.70338	0.69974	0.82218	0.72007

31-12-2020

FX rate	up to 1 year	1 to 5 years	over 5 years	Total
USD to EUR	0.82979	0.87726	0.83164	0.85159
GBP to EUR	1.23873	1.12878	1.33513	1.27521
AUD to EUR	0.70078	0.68672	0.64726	0.67352
CHF to EUR	0.77425	0.72366	0.69974	0.70652

Fair value of financial instruments

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

A distinction is made between three levels of fair value, with the nature of the input factors and their significance for the total valuation being decisive for the correct classification in the hierarchy.

Fair value hierarchy

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

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

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

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

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.

		31-12-2021		31-12-2020
	Balance sheet-value	**Fair value**	**Balance sheet-value**	**Fair value**
Cash and balances held with central banks	9,264	9,264	2,312	2,312
Amounts due from banks	163	165	120	129
Cash collateral posted	12,993	12,993	20,361	20,361
Financial assets at fair value through the income statement	1,383	1,383	1,452	1,452
Derivatives	5,685	5,685	8,540	8,540
Financial assets at fair value through other comprehensive income	8,572	8,572	9,738	9,738
Interest-bearing securities at amortised cost	7,632	7,665	7,880	8,012
Loans and advances	89,738	104,146	88,942	110,373
Total financial assets	**135,430**	**149,873**	**139,345**	**160,917**
Amounts due to banks	19,525	19,488	12,221	12,147
Cash collateral received	984	984	858	858
Financial liabilities at fair value through the income statement	310	310	656	656
Derivatives	16,935	16,935	26,965	26,965
Debt securities	101,355	102,301	108,615	109,356
Funds entrusted	4,525	4,651	5,599	5,775
Subordinated debt	36	44	35	45
Total financial liabilities	**143,670**	**144,713**	**154,949**	**155,802**

When effecting a transaction, the fair value hierarchy is determined on the basis of the relevant characteristics of the valuation, with the nature of the input factors and their significance for the total valuation being decisive for the classification. The classification takes place on the basis of the lowest input level that is significant for the fair value in the transaction as a whole.

Significance is assessed by determining the influence of non-observable input factors on the outcome of the total valuation, with due regard for the range of possible alternative assumptions concerning those non-observable input factors. Each quarter, the classification of each transaction is assessed and adjusted where necessary.

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

2021

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the income statement	106	1,267	10	1,383
Derivatives	-	5,685	-	5,685
Financial assets at fair value through other comprehensive income	8,482	90	-	8,572
Total financial assets	**8,588**	**7,042**	**10**	**15,640**
Financial liabilities at fair value through the income statement	123	187	-	310
Derivatives	-	16,935	-	16,935
Total financial liabilities	**123**	**17,122**	**-**	**17,245**

2020

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through the income statement	107	1,150	195	1,452
Derivatives	-	8,540	-	8,540
Financial assets at fair value through other comprehensive income	9,595	143	-	9,738
Total financial assets	**9,702**	**9,833**	**195**	**19,730**
Financial liabilities at fair value through the income statement	117	539	-	656
Derivatives	258	26,707	-	26,965
Total financial liabilities	**375**	**27,246**	**0**	**27,621**

Significant movements in fair value level 3 items

2021

		Fair value through the income statement
Opening balance		**195**
Results through the income statement:		
- Interest result	-11	
- Unrealised result on financial transactions	11	
- Realised result on financial transactions	-	
		0
- Transfers from Level 3		-177
- Unrealised value adjustments via the revaluation reserve		-
- Investments / disposals		-
- Cash flows		-8
Closing balance		**10**

2020

	Fair value through the income statement	Derivatives (states as assets)	Derivatives (states as liabilities)
Opening balance	**441**	**5**	**4**
Results through the income statement:			
- Interest result	-4	4	3
- Unrealised result on financial transactions	8	-	-
- Realised result on financial transactions	-3	-4	-4
	1	0	-1
- Unrealised value adjustments via the revaluation reserve			
- Investments	-239		
- Cash flows	-8	-5	-3
Closing balance	**195**	**0**	**0**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded in the market. Therefore, the observable market data available for similar securities is not fully representative of the current fair value. The fair value of these transactions is determined on the basis of public market data that is adjusted using significant input variables not publicly observable in the market. As per 31 december 2021 only one Level 3 asset occurs, this is a subordinated loan where the interest rate risk have been hedged with a swap. In the second half of 2021, the two inflation-linked transactions are transferred to Level 2.

Input variables which are not publicly observable in the market

For the purpose of determining the fair value of Level 3 financial assets with an inflationary component and a monoline guarantee, the following input variables not publicly observable in the market are used:
- recovery rates for the relevant debtors (40%) and the relevant monoline insurers (30%); and
- a correlation factor between the debtor and the monoline insurer (20%).

These input variables were estimated by management based on data which is not publicly observable in the market and remained unchanged compared to 2020.

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

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

Impact on balance sheet value of a movement in relevant input factors

	31-12-2021	31-12-2020
	Financial assets at fair value through the income statement	
Balance sheet value	10	195
Interest rate		
+ 10 basis points	0	-2
- 10 basis points	0	2
+ 100 basis points	-1	-19
- 100 basis points	1	23
Inflation rate		
+ 10 basis points	-	2
- 10 basis points	-	-2
+ 100 basis points	-	21
- 100 basis points	-	-18
Credit and liquidity risk spreads		
+ 10 basis points	0	-2
- 10 basis points	0	2
+ 100 basis points	-1	-20
- 100 basis points	1	24
Total significant input factors		
+ 10 basis points	0	-2
- 10 basis points	0	3
+ 100 basis points	-1	-21
- 100 basis points	2	26

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

Fair value hierarchy of amortised cost transactions

The table below provides an overview of the way in which the fair value is determined for transactions recognised at amortised cost in the balance sheet on the basis of the hierarchical classification referred to above.

31-12-2021

	Level 1	Level 2	Level 3	Total
Cash and balances held with central banks	9,264	-	-	9,264
Amounts due from banks	23	138	4	165
Cash collateral posted	-	12,993	-	12,993
Interest-bearing securities at amortised cost	206	6,994	465	7,665
Loans and advances	861	95,255	8,030	104,146
Total financial assets	**10,354**	**115,380**	**8,499**	**134,233**
Amounts due to banks	1	19,487	-	19,488
Cash collateral received	-	984	-	984
Debt securities	87,599	14,703	-	102,302
Funds entrusted	2,800	1,079	772	4,651
Subordinated debt	-	44	-	44
Total financial liabilities	**90,400**	**36,297**	**772**	**127,469**

31-12-2020

	Level 1	Level 2	Level 3	Total
Cash and balances held with central banks	2,312	-	-	2,312
Amounts due from banks	4	119	6	129
Cash collateral posted	-	20,361	-	20,361
Interest-bearing securities at amortised cost	293	7,244	475	8,012
Loans and advances	951	100,980	8,442	110,373
Total financial assets	**3,560**	**128,704**	**8,923**	**141,187**
Amounts due to banks	1	12,146	-	12,147
Cash collateral received	-	858	-	858
Debt securities	88,092	21,264	-	109,356
Funds entrusted	2,800	2,049	926	5,775
Subordinated debt	-	45	-	45
Total financial liabilities	**90,893**	**36,362**	**926**	**128,181**

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

Risk section

Institutional risk management approach

The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct its operations, a bank must accept a certain amount of credit, market, liquidity and operational risk. This section provides an overview of the main characteristics of the risk profile of BNG Bank and only covers the risk management practices that directly impact the financial statements.

The BNG Bank is operating in an highly complex environment and is subject to national and international rules and regulations. Although the bank spends significant effort to ensure compliance to all relevant rules and regulations, the implementation process is prone to human errors that cannot be completely prevented. Unfortunately, this could sometimes result in regulatory consequences.

Credit risk

Credit risk

Credit risk is defined as the risk of losses in earnings or capital resulting from the potential risk that a borrower or a counterparty will fail to meet its obligations in accordance with agreed terms. It includes counterparty risk, settlement risk and concentration risk.

Total credit risk exposure

The total gross exposure value for credit risk consists of the total balance sheet value of the assets, adjusted for the balance sheet value of derivatives, cash collateral posted for either derivative transactions or secured financing transactions and receivables related to Settle to Market (STM) derivative contracts under the Amounts due from banks item. The gross exposure value for off-balance sheet commitments is included, as well as the exposure value for counterparty credit risk (divided into derivative and secured financing transactions). The table below provides insight into the total gross credit risk exposure value.

	31-12-2021	31-12-2020
Balance sheet total	149,363	160,359
-/- Derivatives	-5,685	-8,540
-/- Cash collateral posted	-12,993	-20,361
Total on-balance sheet exposure	**130,685**	**131,458**
Total off-balance sheet exposure	**10,859**	**10,887**
Exposure value for derivatives	3,199	4,477
Exposure value for secured financing transactions	61	3
Total counterparty credit risk exposure	**3,260**	**4,480**
Total gross exposure	**144,804**	**-173,893**

As at 31 December 2021, the balance sheet value of the loans granted to or guaranteed by public authorities, the WSW Housing guarantee fund and the WfZ Healthcare guarantee fund in the Loans and advances balance sheet item totalled EUR 80.5 billion (2020: EUR 80.3 billion). The contingent liabilities and the irrevocable facilities are explained in the section ‘Off-balance sheet commitments’. Section 'Encumbered financial assets and liabilities' indicates which parts of the financial assets are not freely disposable.

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

Cumulative changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 131 million negative (2020: EUR 120 million negative) and amounted to EUR 29 million negative over 2021 (2020: EUR 28 million negative). Cumulative changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit and liquidity risk spreads totalled EUR 4 million positive (2020: EUR 6 million positive) and amounted to EUR 10 million positive for 2021 (2020: EUR 4 million negative). Financial liabilities at fair value through the income statement are recognised on the relevant funding curve including a mark-up for ‘own credit risk’ in the accounts.

Counterparty risk

The bank is exposed to counterparty risk in relation to public sector entities (loans and advances), financial counterparties (derivatives) and issuers of interest-bearing securities (IBS) in which the bank has invested. BNG Bank applies the following credit risk mitigation measures:

- Guarantees received from a central or local authority or by the guarantee funds WSW (Social Housing) and WfZ (Healthcare). Because loans subject to solvency requirements are often extended under partial of full guarantees or suretyships, the loan remains partly or fully zero-risk-weighted on balance for BNG Bank (see the section on statutory market parties).
- Other forms of security such as pledges and mortgages are used to minimise possible losses due to credit risks. The potential risk-reducing effect, however, is not used in the calculation of the regulatory capital requirement.
- Bilateral netting and collateral agreements based on a daily collateral exchange with financial counterparties, also the section on financial counterparties.

Statutory market parties

The bank's Articles of Association restrict lending to parties subject to some form of government involvement. As a result, the credit portfolio is largely comprised of zero-risk-weighted loans and advances provided to or guaranteed by the Dutch government.

Lending is subject to initial and periodic credit assessment. This contains a detailed assessment of the creditworthiness of the client concerned, based in part on the bank's own internal rating model. Additionally, the bank has an internal risk assessment process for tailored transactions that includes operational risk elements. Moreover, the bank uses extensive qualitative product descriptions, in which the appropriateness of the product for different types of clients is made explicit.

Credit risk models

Most of BNG Bank's clients are not rated by external rating agencies, such as Moody's, Fitch or S&P. The bank applies internally developed rating models to assess creditworthiness of clients. These expert models are sector specific and subject to periodic review and validation in accordance with the bank's model governance policy. These models are not applied for capital calculations under Pillar I, where the bank uses the Standardised approach.

The significance of the internal ratings is the following:

Internal rating	Description
0	Zero risk-weighted lending.
1 through 11	The credit risk is deemed acceptable. A regular annual review is performed.
12 through 13	Watch list: there is an increased credit risk. A review takes place at least twice a year.
14 through 16	Financial restructuring and recovering department: there is an increased credit risk. At least three times a year, a report on these debtors is submitted to the Executive Board.
17 through 19	Financial restructuring and recovering department: there is an increased credit risk and/or the debtor repeatedly fails to fulfil the payment obligations and/or there is no expectation of continuity. At least three times a year, a report on these debtors is submitted to the Executive Board.

Forborne exposures

Forbearance concerns credit agreements for which the credit conditions have been amended in the debtor's favour as a result of the debtor's precarious financial position, so as to enable it to fulfil its obligations.

31-12-2021

		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	9,264	-	-	0.0%
Amounts due from banks	163	-	-	0.0%
Cash collateral posted	12,993	-	-	0.0%
Financial assets at fair value through the income statement	1,383	-	-	0.0%
Financial assets at fair value through other comprehensive income	5,685	-	-	0.0%
Interest-bearing securities at AC	8,572	-	-	0.0%
Loans and advances	89,738	365	313	0.4%
	127,798	**365**	**313**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	501	-	-	0.0%
Revocable facilities	5,871	-	-	0.0%
Irrevocable facilities	4,487	-	-	0.0%
	10,859	**-**	**-**	**0.0%**

31-12-2020

		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	2,312	-	-	0.0%
Amounts due from banks	120	-	-	0.0%
Cash collateral posted	20,361	-	-	0.0%
Financial assets at fair value through the income statement	1,452	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,738	-	-	0.0%
Interest-bearing securities at AC	7,880	-	-	0.0%
Loans and advances	88,942	392	351	0.4%
	130,805	**392**	**351**	**0.3%**
Off-balance sheet commitments				
Contingent liabilities	1,517	-	-	0.0%
Revocable facilities	3,676	8	8	0.2%
Irrevocable facilities	5,694	5	5	0.1%
	10,887	**13**	**13**	**0.1%**

The financial assets of which contractual terms have been changed as a result of the debtor's unfavourable financial position amounted to EUR 365 million as at 31 December 2021 (year-end 2020: EUR 405 million). The share of forborne exposure in the total portfolio is 0.3% (year-end 2020 0.3%) and concerns 23 debtors (year-end 2020: 16 debtors). Forbearance is used as a backstop indicator in the impairment staging assessment, as a result of which all forborne exposures are classified in impairment stage 2.

Non-performing exposures

Please refer to Note 37 (Impairment of 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'); and
- The debtor has no payment arrears exceeding 90 days.

The tables below provide insight into the total exposure in financial assets (excluding derivatives) and off-balance sheet commitments, indicating which portions have been classified as non-performing.

31-12-2021

		Of which: Non-performing		
	Total exposure	Gross of impairment	Net of impairment	**in % of total**
Financial assets (excl. derivatives)				
Cash and balances held with central banks	9,264	-	-	0.0%
Amounts due from banks	163	-	-	0.0%
Cash collateral posted	12,993	-	-	0.0%
Financial assets at fair value through the income statement	1,383	-	-	0.0%
Financial assets at fair value through other comprehensive income	8,572	-	-	0.0%
Interest-bearing securities at amortised cost	7,632	-	-	0.0%
Loans and advances	89,738	548	324	0.6%
	129,745	**548**	**324**	**0.4%**
Off-balance sheet commitments				
Contingent liabilities	501	1	1	0.2%
Revocable facilities	5,871	-	-	0.0%
Irrevocable facilities	4,487	-	-	0.0%
	10,859	**1**	**1**	**0.0%**

31-12-2020

	Total exposure	Of which: Non-performing		in % of total
		Gross of impairment	Net of impairment	
Financial assets (excl. derivatives)				
Cash and balances held with central banks	2,312	-	-	0.0%
Amounts due from banks	120	-	-	0.0%
Cash collateral posted	20,361	-	-	0.0%
Financial assets at fair value through the income statement	1,452	-	-	0.0%
Financial assets at fair value through other comprehensive income	9,738	-	-	0.0%
Interest-bearing securities at amortised cost	7,880	-	-	0.0%
Loans and advances	88,942	397	220	0.3%
	130,805	**397**	**220**	**0.2%**
Off-balance sheet commitments				
Contingent liabilities	1,517	-	-	0.0%
Revocable facilities	3,676	1	1	0.2%
Irrevocable facilities	5,694	-	-	0.3%
	10,887	**1**	**1**	**0.3%**

Non-performing exposure totalled EUR 549 million as at 31 December 2021 (year-end 2020: EUR 398 million). The increase of this exposure in 2021 is caused by the transfer of four obligors to Stage 3, as the result of an individual assessment. The total non-performing exposure is still low in relation to the total exposure of the portfolio of BNG Bank. At year-end 2021 the share of non-performing exposure in the total portfolio is 0.4% (year-end 2020: 0.3%) and concerns 14 debtors (year-end 2020: 12 debtors). BNG Bank received EUR 160 million of government guarantees (2020: EUR 38 million) with respect to non-performing exposures.

The following table shows the development of non-performing exposures.

	2021	2020
Total non-performing exposure as at 1 January	**397**	**321**
Change in existing non-performing exposures	-5	0
Shift from performing to non-performing exposure	213	125
Shift from non-performing to performing exposure	-34	-
Repayments on and settlement of non-performing exposure	-22	-49
Total non-performing exposure as at 31 December	**549**	**397**

Maturity analysis of performing past due exposures

The following table comprises past due exposures that are not included in impairment stage 3 under IFRS 9.

	31-12-2021	31-12-2020
Less than 31 days	1	12
31 through 60 days	-	0
61 through 90 days	-	-
Over 90 days	-	-
Closing balance	**1**	**12**

Moratoria

In 2021 moratorium was no longer offered to clients, all payments has been received from the 11 obligors as per 31 December 2020.

Moratorium was offered in 2020 due to the COVID-19 pandemic. Banks within The Netherlands joined forces to support customers by issuing payment holidays. BNG Bank joined 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 31 December 2020. Exposures for which a payment holiday is given were not marked as forborne and all were performing. In The Netherlands a Public Guarantee Scheme or legislative moratoria was not applicable and as per December 2020 the maturity date was not expired.

31-12-2020	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	31	20					
Loans and advances subject to moratorium (granted)	11	7	0	0	0	0	7
- of which: Households		5	0	0	0	0	5
- of which: Collateralised by residential immovable property		-	-	-	-	-	-
- of which: Non-financial corporations		0	-	0	-	-	0
- 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.

31-12-2020	Gross carrying amount			
		Performing		
			Of which: exposures with forbearance measures	Of which: Instruments with SICR since initial recognition but performing (Stage 2)
Loans and advances subject to moratorium	7	7	-	6
of which: Households	5	5	-	4
of which: Collateralised by residential immovable property	-	-	-	-
of which: Non-financial corporations	0	0	-	-
of which: Small and Medium-sized Enterprises	-	-	-	-
of which: Collateralised by commercial immovable property	-	-	-	-

Impairments
The impairments of financial assets are explained in note 31.

External rating
BNG Bank uses the external ratings awarded by rating agencies, specifically S&P, Moody's, Fitch and DBRS. In determining the capital requirement, the bank uses the ratings of these four agencies if such ratings are available. The ratings relate either to the counterparty or specifically to a securities purchased.

Financial counterparties
The market risks associated with loans to clients are mitigated primarily through derivative transactions with financial counterparties. The bank only conducts business with financial counterparties that have been rated by an external agency. Financial counterparties are periodically assessed for creditworthiness. If necessary, the limit on the maximum exposure to such a counterparty is re-adjusted accordingly.

			31-12-2021			31-12-2020
	Mtm value	Add-on	Total	Mtm value	Add-on	Total
Credit equivalents of derivatives on the asset side of the balance sheet						
Interest contracts		854	854	2,815	689	3,504
Currency contracts		447	447	147	826	973
Total	**1,898**	**1,301**	**3,199**	**2,962**	**1,515**	**4,477**

At year-end 2021, the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1.473 million (2020: EUR 1,202 million).

In order to reduce credit risk, netting agreements are in place with financial counterparties with which BNG Bank actively enters into derivatives transactions or (reverse) repos. In addition, collateral agreements are concluded. These ensure that market value developments are mitigated on a daily basis by collateral. The agreements are updated where necessary in response to changing market circumstances, market practices and regulatory changes. The table on the next page shows the gross positions before balance sheet netting and if the collateral agreements were taken into account.

31-12-2021

	Derivatives (states as assets)	Derivatives (states as liabilities)	Net
Netting of financial assets and financial liabilities (derivatives)			
Gross value of financial assets and liabilities before balance sheet netting	10,685	-21,936	**-11,251**
Gross value of the financial assets and liabilities to be netted	-5,000	5,000	**0**
Balance sheet value of financial assets and liabilities (after netting)	**5,685**	**-16,936**	**-11,251**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	-3,799	3,799	0
Exposure before collateral	**1,886**	**-13,137**	**-11,251**
Value of financial collateral that does not comply with IAS 32 for netting purposes	-1,054	13,229	**12,175**
Net exposure	**832**	**92**	**924**

31-12-2020

	Derivatives (states as assets)	Derivatives (states as liabilities)	Net
Netting of financial assets and financial liabilities (derivatives)			
Gross value of financial assets and liabilities before balance sheet netting	12,367	-30,792	**-18,425**
Gross value of the financial assets and liabilities to be netted	-3,827	3,827	**0**
Balance sheet value of financial assets and liabilities (after netting)	**8,540**	**-26,965**	**-18,425**
Value of financial netting instrument that does not comply with IAS 32 (netting of derivatives with the same counterparty) for netting purposes	-6,459	6,459	**0**
Exposure before collateral	**2,081**	**-20,506**	**-18,425**
Value of financial collateral that does not comply with IAS 32 for netting purposes	-858	20,383	**19,525**
Net exposure	**1,223**	**-123**	**1,100**

At year-end 2021, the collateral posted for derivative transactions amounted to EUR 14.6 billion (2020: EUR 21.2 billion). The deterioration of BNG Bank's rating by three notches would not increase this amount (2020: EUR nil). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in collateral obligations.

	31-12-2021 Reverse repos (assets)	31-12-2021 Repos (liabilities)	31-12-2020 Reverse repos (assets)	31-12-2020 Repos (liabilities)
Netting of reverse repo and repo agreements subject to enforcable master netting agreements				
Gross balance sheet value before balance sheet netting	998	-998	370	-370
Balance sheet netting of reverse repo and repo agreements	-998	998	-370	370
Net balance sheet value of financial assets and liabilities	**0**	**0**	**0**	**0**

Investments in interest-bearing securities (IBS)

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

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

31-12-2021

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Liquidity portfolio							
Level I – Government/ Supranational	4,839	1,370	-	-	46	6,255	6,540
Level I B – Covered bonds	913	-	-	-	-	913	927
Level II A – Government/ Supranational	-	59	-	-	-	59	106
Level II A – Covered bonds	330	-	-	-	-	330	338
Level II B – Corporates	-	-	25	-	-	25	25
Level II B – RMBS	971	-	-	-	-	971	983
	7,053	**1,429**	**25**	**0**	**46**	**8,553**	**8,919**
ALM portfolio							
Initial margin	389	1,227	220	-	-	1,836	2,100
RMBS	93	229	55	-	18	395	396
ABS	47	-	63	22	50	182	180
RMBS-NHG	3,277	62	120	-	-	3,459	3,465
Other	99	422	139	447	65	1,172	1,992
	3,905	**1,940**	**597**	**469**	**133**	**7,044**	**8,133**
Total	**10,958**	**3,369**	**622**	**469**	**179**	**15,597**	**17,052**

31-12-2020

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Liquidity portfolio							
Level I – Government/ Supranational	5,784	1,223	170		46	7,223	8,057
Level I B – Covered bonds	1,305					1,305	1,360
Level II A – Government/ Supranational		56				56	108
Level II B – Corporates			25			25	25
Level II B – RMBS	642					642	647
	7,731	**1,279**	**195**	**0**	**46**	**9,251**	**10,197**
ALM portfolio							
Initial margin	405	1,008	50			1,463	1,650
RMBS	213	253	92	4	20	582	582
ABS		53	87	25	52	217	213
RMBS-NHG	3,297	77	139			3,513	3,516
Other	272	365	513	253	72	1,475	2,285
	4,187	**1,756**	**881**	**282**	**144**	**7,250**	**8,246**
Total	**11,918**	**3,035**	**1,076**	**282**	**190**	**16,501**	**18,443**

The liquidity portfolio improved in quality (AAA and AA) mainly due to investments in Government bonds with a better rating. The ALM portfolio also improved due to the purchase of high rated NHG securities.

Transfer of financial assets without derecognition

At year-end 2021 and 2020, BNG Bank has no transferred interest-bearing securities in repurchase transactions without derecognition. At year-end 2021, BNG Bank has no financial assets in its portfolio that were transferred and derecognised and in which it has a continuing involvement. Financial assets are not removed from the balance sheet if BNG Bank retains the credit risks and the rights to the underlying cash flows.

Concentration risk

Regarding concentration risk, the bank differentiates between:
- country risk with a distinction between domestic and foreign risk;
- sector risk; and
- risk for individual parties with a distinction between clients and financial counterparties.

Sector specific policies, annual internal targets and maximum exposure amounts on individual counterparties are applied to manage the concentration risks on sectors and individual parties. A considerable portion of the total outstanding is indirectly related to public sector property. However, these risks are generally mitigated by government guarantees on lending and by the WSW and WfZ guarantee funds. These guarantees result in a concentration risk in relation to public authorities and guarantee funds. The guarantee funds are guaranteed by the central government via backstop constructions, which, in the end, creates an exposure to the Dutch State. The concentration of this risk is high, but inherent to BNG Bank's business model.

The bank is exposed to foreign country risk as a result of transactions with financial counterparties to hedge market risks arising from lending and funding activities, as a result of its liquidity portfolio and, to a limited extent, in the context of lending and investments in the public sector abroad.

The bank invests in foreign securities for its liquidity portfolio because the vast majority of its loan portfolio already relates to the Netherlands. Foreign lending is in most cases also directly or indirectly guaranteed by the relevant governments.

All foreign exposures fall within limits set for each country. These limits mainly depend on the perceived credit quality of the country in question. Moreover, a general limit of 15% of the balance sheet total applies to foreign exposures excluding derivatives, collateral and short term loans and current account balances due from banks. Because the creditworthiness of certain countries in the Eurozone deteriorated, the bank has gradually reduced its positions in these countries. This was mainly realised by expiration of exposures.

Long-term foreign exposure

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

31-12-2021

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Supranational institutions	1,395	-	-	-	-	1,395	1,405
Multilateral development banks	203	-	-	-	-	203	195
Austria	-	700	-	-	-	700	713
Belgium	-	355	68	127	-	550	700
Denmark	42	-	-	-	-	42	41
Finland	-	260	-	-	-	260	260
France	150	1,286	85	19	-	1,540	1,775
Germany	1,028	55	16	-	-	1,099	1,147
Italy	-	8	17	-	50	75	73
Luxembourg	386	-	-	-	-	386	384
Portugal	-	16	26	50	30	122	121
Spain	14	206	244	42	64	570	655
United Kingdom	330	422	63	444	117	1,376	2,186
United States	22	-	-	-	-	22	23
Total	**3,570**	**3,308**	**519**	**682**	**261**	**8,340**	**9,678**

31-12-2020

	AAA	AA	A	BBB	Non-investment grade	Total nominal value	Total balance sheet value
Supranational institutions	1,240	149	-	-	-	1,389	1,417
Multilateral development banks	125	-	-	-	-	125	144
Austria	-	501	-	-	-	501	539
Belgium	-	273	78	131	-	482	663
Denmark	40	-	-	-	-	40	40
Finland	-	548	-	-	-	548	567
France	605	801	92	5	-	1,503	1,811
Germany	1,668	30	17	-	-	1,715	1,978
Italy	-	13	17	-	54	84	81
Portugal	215	-	-	-	-	215	218
Spain	-	-	48	50	100	198	199
Switzerland	61	240	272	4	66	643	745
United Kingdom	409	364	283	249	50	1,355	2,154
United States	20	-	-	-	-	20	22
Total	**4,383**	**2,919**	**807**	**439**	**270**	**8,818**	**10,578**

For a large part, the non-investment grade items (i.e. items with a rating below BBB-) consist of exposures in Spain, Italy and Portugal. This largely concerns interest-bearing securities, including Covered bonds and RMBS transactions. The non-investment grade exposure in the United Kingdom concerns a limited number of private project financing schemes in the areas of infrastructure, education, energy and healthcare. The total fair value of foreign non-investment grade exposures in December 2021 amounted to EUR 288 million (year-end 2020: EUR 287 million).

Exposures divided to internal-/external rating

The following table provide an overview of all exposures subdivided to interal and external rating.

	31-12-2021				31-12-2020			
Loans and advances solvency-free	**On-balance exposures** (gross carrying amount)				**On-balance exposures** (gross carrying amount)			
	Performing		**Non-performing**	**Total**	**Performing**		**Non-performing**	**Total**
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	80,700	23	-	80,723	79,388	24	-	79,412
- Medium risk	127	24	-	151	33	438	-	471
- High risk	-	42	113	155	9	120	-	129
- Non-performing	-	-	10	10	-	-	158	158
- Not rated				-	2	310	-	312
Total	**80,827**	**89**	**123**	**81,039**	**79,432**	**892**	**158**	**80,482**

Loans and advances subject to capital requirements	31-12-2021 On-balance exposures (gross carrying amount)				31-12-2020 On-balance exposures (gross carrying amount)			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	7,715	8	-	7,723	7,388	103	-	7,491
- Medium risk	265	207	-	472	86	387	-	473
- High risk	18	95	5	118	5	170	-	175
- Non-performing	-	-	197	197	-	-	361	361
- Not rated	184	5	-	189	167	4	-	171
Total	**8,182**	**315**	**202**	**8,699**	**7,646**	**664**	**361**	**8,671**

Interest-bearing securities	31-12-2021 On-balance exposures (gross carrying amount)				31-12-2020 On-balance exposures (gross carrying amount)			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	16,137	66	-	16,203	17,391	100	-	17,491
- Medium risk	-	-	-	-	-	133	-	133
- High risk	-	-	-	-	-	-	-	-
- Non-performing	-	-	-	-	-	-	-	-
- Not rated				-	-	-	-	-
Total	**16,137**	**66**	**-**	**16,203**	**17,391**	**233**	**-**	**17,624**

Off-balance sheet exposures	31-12-2021 Notional amount				31-12-2020 Notional amount			
	Performing		Non-performing	Total	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
- Low risk	10,683	18	-	10,701	10,721	8	-	10,729
- Medium risk	38	37	-	75	15	100	-	115
- High risk	-	16	39	55	8	34	-	42
- Non-performing	-	-	28	28	-	-	1	1
- Not rated	-	-	-	-	-	-	-	-
Total	**10,721**	**71**	**67**	**10,859**	**10,744**	**142**	**1**	**10,887**

Risk classes	Ratings based on	
	Internal ratings	External rating
- Low risk	1-11	AAA - BBB
- Medium risk	12-13	BB
- High risk	14-17	B or lower
- Non-performing	18-19	

Individual statutory market parties
For non-zero risk weighted parties, the exposures have to adhere to the Large Exposure Regulation under CRR. The bank has a significantly more conservative approach regarding the maximum size of individual exposures. This further limitation takes into account the degree to which sectors are anchored in the public sector. The party's individual rating is a further criterium for limit setting.

Individual financial counterparties
Transactions with financial counterparties primarily consist of interest rate and currency swaps undertaken to mitigate market risks. BNG Bank sets requirements for the minimum ratings of the financial counterparties with which it is willing to transact, taking into account the nature of the business conducted with that party. This limits the number of available parties. As a consequence, the number of transactions with approved parties is high. Daily exchange of collateral helps to mitigate the credit risk with respect to derivatives. A bankruptcy of a counterparty would result in market risks as the market is subject to fluctuations while the derivatives need to be rearranged with another party. The Financial Counterparties Committee limits and monitors positions with financial counterparties. BNG Bank clears parts of its derivatives centrally via clearing houses through clearing members. This results inevitably in a shift in concentration risk from individual financial counterparties to the clearing members and the clearing houses.

Due to Brexit, BNG Bank transferred all cleared derivatives from UK-based clearing members to EU-based clearing members. The London Clearing House (LCH) is temporarily being exempted from changes in regulations due to the Brexit. This means that cleared derivatives, for now, can remain with the LCH and that it is still possible to clear swaps at the LCH. However, both under the condition that the clearing members involved are EU entities. Nevertheless, BNG Bank onboarded Eurex as EU-based clearing house. This way continuity and flexibility with regard to central clearing is granted. Bilateral limits with UK-based individual financial counterparties have been withdrawn and replaced by limits with EU-based individual financial counterparties. The bilateral swaps with these UK-based individual financial counterparties are not yet transferred as this will trigger the clearing obligation. British clearing houses, despite no longer being in the bloc following Brexit, are allowed to serve EU customers until 30 June 2022.

Market risk

Definitions
Market risk is defined as an existing or future threat to the institution’s capital and earnings as a result of market price fluctuations. It includes interest rate risk, foreign exchange risk, volatility risk, spread risk and index risk.

Interest rate risk
The bank’s most important interest rate risk is the ‘outright risk’ to the interest rate swap curve, which is determined excluding the impact of spreads. This means that changes in spreads such as credit spreads, CVA/DVA and cross currency basis spreads do not influence the interest rate risk position and hedging. There is no material presence of early redemption options in BNG Bank’s regular loan portfolio. Likewise, there is no material exposure in mortgages and the bank does not attract savings from private individuals. Consequently, client behaviour is not modelled in the bank’s interest rate risk models.

The limits with respect to interest rate risk were not breached in 2021. In the bank’s opinion, its interest rate risk management was adequate, compliant with the regulatory standards and within the limits as defined in the bank's risk appetite and risk policies. The table below outlines the Earnings at Risk as per end of 2021 in a scenario with an instantaneous parallel shock of plus 100 basis points for the 1-year and 2-year horizon. Usually, the most negative or least positive impact can be seen in the scenario with an instantaneous parallel shock of minus 100 basis points. The main reason for this switch is the participation in TLTRO. This is a large liability repricing in the shortest bucket, leading to a significant positive effect in the downward scenario.

Earnings at risk (in millions of euros)	**2021**	**2020**
Horizon		
1 year	9	21
2 years	67	35

Foreign exchange risk
The bank obtains a large portion of its funding in foreign currencies and is therefore exposed to foreign exchange fluctuations. However, according to the bank’s policy, foreign exchange risks are hedged in terms of notional amounts. Incidentally, foreign exchange positions may occur in certain cases where it is not cost-efficient to hedge the risk. The foreign exchange risk of these minor positions is monitored on a daily basis, subject to limits. During 2021 and 2020, these limits were not breached.

Volatility risk
The treasury department is allowed to run a interest rate position within een limited range in order to manage the bank's interest rate risk in a flexible and cost efficient way. This range is limited and is monitored by the Risk Management department on a daily basis.

BNG Bank’s policy specifies that the volatility risks for new financial instruments should be hedged one-to-one. Therefore, the resulting volatility risk is relatively small and subject to monitoring by Risk Management.

Spread risk

The economic value of BNG Bank's equity is determined over its total portfolio of assets and liabilities. Both assets and liabilities are valued on the basis of an interest rate curve made up of market-based swap rates plus credit risk spreads. In case of interest rate swaps, the CVA risk (counterparty risk) and DVA risk (the bank's own default risk) are included. Spread risk is not hedged by the bank. The impact of changes in these spreads is measured and monitored on a daily basis. For the fair value instruments affecting profit and loss or regulatory capital, a warning level on the credit spread stress testing outcomes has been set.

Index risk

The bank has inflation-linked instruments in its portfolio. The bank's policy specifies that exposure to fluctuations in inflation risk should be hedged in full and it executes this policy. The inflation delta is monitored on a daily basis.

Liquidity and funding risk

Liquidity risk is defined as the existing or future threat to the institution's capital and earnings due to the possibility that it will not be able at any moment to fulfil its payment obligations, without incurring any unacceptable costs or losses. The public sector consists largely of institutions with a long-term investment horizon. This means that assets frequently have long maturities, which can be in excess of 25 years. As BNG Bank is not able to attract funding in large volumes for these maturities, a limited funding mismatch is accepted. In order to refinance at acceptable cost, also in times of stress, BNG holds sufficient liquidity buffers.

Liquidity risk

BNG Bank wants to provide a stable presence in the capital markets, because the bank wants to continue to meet the demand for credit even in difficult times. It also pursues a prudent liquidity policy to ensure that it can meet its obligations at all times. In this context, ongoing access to the money and capital markets is essential, along with the ongoing maintenance of attractive, varied and sufficiently large issuance programmes for investors. In addition, buffers are required in order to have access to liquidity in times of stress. One such buffer is formed by assets held explicitly for liquidity purposes, known as the liquidity portfolio. The management of the size and composition of this portfolio is one of the liquidity measures to comply with the requirement under the CRR to have an LCR of at least 100%. BNG Bank also holds an ample quantity of collateral with the ECB, which enables it to obtain short-term funding immediately. Since most of the bank's assets could serve as collateral at the ECB, this collateral may be further extended in the event of prolonged stress. The size of both buffers is tested in the liquidity stress tests, which are monitored on a monthly basis. Furthermore, the funding plan and corresponding planned liquidity gap is tested in an adverse stress scenario for the LCR and NSFR ratios. The bank considers its liquidity management to have been adequate in 2019 and that the strength of the bank's liquidity position is both amply sufficient and in compliance with the regulatory standards and limits set by the ALCO. As at end of 2021, the LCR ratio amounted to 174% (2020: 133%) and the NSFR ratio amounted to 126% (2020: 122%).

Funding risk

BNG Bank distinguishes between short-term and long-term funding. The majority of funding is from international capital markets. The bank maintains a number of programmes that enables it to have access to funding at all times at competitive levels. The bank pursues proactive investor relations which supports these efforts. The bank has a funding plan, in which the desired funding mix is described in more detail. Part of the funding plan is the annual issuance in benchmark size to maintain a 'BNG curve' in the market. These large-scale issues ensure that the bank has a high profile among institutional investors, allowing it to retain access to investors even in times of market stress. The actual realisation of this funding mix is monitored and evaluated by the ALCO.

Maturity analysis of financial assets and liabilities on the basis of the remaining contractual period

The amounts featured in the table below represent the non-discounted future cash flows of financial assets and liabilities. Because these amounts are non-discounted, these are different to the amounts in the balance sheet. For the maturity analysis of issued guarantees and irrevocable commitments, see the 'Off-balance sheet commitments' section.

31-12-2021

	Up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	9,264	-	-	-	9,264
Amounts due from banks	23	19	59	74	175
Cash collateral posted	12,993	-	-	-	12,993
Financial assets at fair value through the income statement	37	41	341	1,238	1,657
Financial assets at fair value through other comprehensive income	301	138	2,008	6,135	8,582
Interest-bearing securities at amortised cost	40	603	4,689	3,257	8,589
Loans and advances	2,588	8,251	30,624	66,021	107,484
Current tax assets	-	-	-	-	-
Other assets	20	-	-	-	20
Total financial assets (excluding derivatives)	**25,266**	**9,052**	**37,721**	**76,725**	**148,764**
Amounts due to banks	-17	-13,384	-8	-396	-13,805
Cash collateral received	-984	-	-	-	-984
Financial liabilities at fair value through the income statement	-40	-65	-22	-200	-327
Debt securities	1,404	-14,151	-46,652	-50,237	-109,636
Funds entrusted	-3,017	-928	-18,952	-1,205	-24,102
Subordinated debt	-1	-	-32	-11	-44
Other liabilities	-59	-8	-38	-107	-212
Current tax liabilities	-	-29	-	-	-29
Total financial liabilities (excluding derivatives)	**-2,714**	**-28,565**	**-65,704**	**-52,156**	**-149,139**
Gross balanced derivatives					
Assets amounts receivable	4,338	4,236	17,829	16,424	42,827
Assets amounts payable	-3,869	-3,420	-15,243	-11,013	-33,546
Derivatives stated as assets	**469**	**816**	**2,586**	**5,410**	**9,281**
Liabilities amounts receivable	2,358	4,019	6,756	10,344	23,476
Liabilities amounts payable	-2,841	-5,323	-10,479	-20,625	-39,268
Derivatives stated as liabilities	**-483**	**-1,304**	**-3,722**	**-10,282**	**-15,791**
Grand total	**22,538**	**-20,001**	**-29,120**	**19,698**	**-6,885**

31-12-2020

	Up to 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Cash and balances held with central banks	2,312	-	-	-	2,312
Amounts due from banks	9	7	47	68	131
Cash collateral posted	20,391	-	-	-	20,391
Financial assets at fair value through the income statement	22	39	244	1,208	1,513
Financial assets at fair value through other comprehensive income	232	279	3,979	4,998	9,488
Interest-bearing securities at amortised cost	434	576	4,417	2,919	8,346
Loans and advances	6,956	8,960	32,145	58,933	106,994
Current tax assets	-	1	-	-	1
Other assets	150	-	-	-	150
Total financial assets (excluding derivatives)	**30,506**	**9,862**	**40,832**	**68,126**	**149,326**
Amounts due to banks	-657	-84	-10,857	-420	-12,018
Cash collateral received	-858	-	-	-	-858
Financial liabilities at fair value through the income statement	-27	-67	-195	-390	-679
Debt securities	-14,352	-9,101	-48,912	-42,180	-114,545
Funds entrusted	-3,078	-1,196	-695	-804	-5,773
Subordinated debt	-1	-	-22	-22	-45
Other liabilities	-188	-20	-	-	-208
Total financial liabilities (excluding derivatives)	**-19,161**	**-10,468**	**-60,681**	**-43,816**	**-134,126**
Gross balanced derivatives					
Assets amounts receivable	4,168	1,681	14,298	14,260	34,407
Assets amounts payable	-3,333	-653	-10,284	-5,683	-19,953
Derivatives stated as assets	**835**	**1,028**	**4,014**	**8,577**	**14,454**
Liabilities amounts receivable	8,501	5,098	10,094	4,126	27,819
Liabilities amounts payable	-9,424	-6,799	-17,290	-19,786	-53,299
Derivatives stated as liabilities	**-923**	**-1,701**	**-7,196**	**-15,660**	**-25,480**
Grand total	**11,257**	**-1,279**	**-23,031**	**17,227**	**4,174**

Encumbered and unencumbered financial assets

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

31-12-2021

	Encumbered	Unencumbered	Total
Cash and balances held with central banks	-	9,264	9,264
Amounts due from banks	-	163	163
Cash collateral posted	12,993	-	12,993
Financial assets at fair value through the income statement	-	1,383	1,383
Derivatives	-	5,685	5,685
Financial assets at fair value through other comprehensive income	4,594	3,978	8,572
Interest-bearing at amortised cost	1,443	6,189	7,632
Loans and advances	26,817	62,921	89,738
Value adjustments on loans in portfolio hedge accounting	-	13,555	13,555
Non-financial assets	-	64	64
Assets-held-for-sale	-	8	8
Total	**45,847**	**103,210**	**149,057**
Average (total) in 2021	**47,272**	**116,051**	**163,323**

31-12-2020

	Encumbered	Unencumbered	Total
Cash and balances held with central banks	-	2,312	2,312
Amounts due from banks	-	120	120
Cash collateral posted	20,361	-	20,361
Financial assets at fair value through the income statement	-	1,452	1,452
Derivatives	-	8,540	8,540
Financial assets at fair value through other comprehensive income	1,776	7,962	9,738
Interest-bearing at amortised cost	726	7,154	7,880
Loans and advances	15,375	73,567	88,942
Value adjustments on loans in portfolio hedge accounting	-	20,816	20,816
Non-financial assets	-	198	198
Total	**38,238**	**122,121**	**160,359**
Average (total) in 2020	**34,554**	**136,417**	**170,971**

Capital and solvency

Definitions
Regulatory capital relates to the capital requirements under the Capital Requirements Regulations and Capital Requirements Directive IV. For regulatory purposes the capital requirement is based on the Pillar 1 requirement for the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). This requirement is supplemented by the so-called combined buffer requirement (CBR) and a Pillar 2 requirement (P2R). The CBR consists of a capital conservation buffer, a systemic risk buffer, a countercyclical buffer and a systemic relevance buffer. The P2R is an institutional specific requirement stemming from the Supervisor Review and Evaluation Process (SREP) conducted by the supervisor. The P2R covers risks underestimated or not covered by Pillar 1. BNG Bank employs the 'Standardised Approach' to calculate the RWAs.

In addition to the regulatory required capital BNG Bank calculates economic capital (EC) for Pillar 2 purposes. Economic capital covers all risks in our risk taxonomy, for which capital is deemed to be the mitigating instrument to cover unexpected losses. It is used for internal risk measurement and management. It is the amount of capital the bank deems adequate to pursue its strategy and which achieve a sufficient level of protection against large unexpected losses that could result from extreme market conditions or events.

Governance
The Executive Board is responsible for determining the policy with respect to capital. This is laid down in a capital adequacy statement and management plan. The Executive Board is also responsible for the allocation of capital. Decision making is prepared by the Capital Committee. This committee comprises representatives of all relevant stakeholders: the Executive Board, Public Finance, Treasury, Capital Management, Risk Management and Finance and Control.

Developments
As at December 2021, the fully CRR/CRD IV Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were respectively 32%, 38% and 38%. All capital ratios were well above regulatory minimum requirements.

BNG Bank is required in 2022 to meet a minimum CET1 ratio of 10.00%, composed of a SREP requirement of 6.50% (4.50% Pillar 1 requirement and 2.00% Pillar 2 requirement), an Other Systemically Important Institution buffer (OSII) of 1.00% and a capital conservation buffer (CCB) of 2.50%. BNG Bank amply meets the requirements. The Overall Capital Requirement level for BNG Bank is 13.50%.

In 2011, BNG Bank lowered its dividend distribution policy to 25% in order to meet the additional capital requirements introduced by Basel III. Since 2019 BNG Bank the dividend distribution policy is 50%. BNG Bank did not change this policy in 2021.

Capital management
The primary objective of the capital management strategy is to ensure that internal as well as external capital adequacy requirements are met at all times and sufficient capital is available to support the bank's strategy.

The capital management strategy builds on the bank's risk appetite and its business plans. Besides, expectations and requirements of external stakeholders (e.g. regulators, investors, rating agencies, shareholders), the bank's capitalization relative to other financial institutions, market developments and the feasibility of capital management actions are taken into account. The capitalization policy is incorporated in the so-called Internal Capital Adequacy Assessment Process (ICAAP).

Key to this policy is the capital management plan, which determines the level and composition of the capital based on the risks to be insured by that capital. In the ICAAP, regulatory as well as economic capital is taken into account. As part of the ICAAP a number of stress scenarios is executed in order to determine the adequacy and robustness of the capitalization. Next to the level of capitalization, the ICAAP determines the allocation per relevant type of risk.

On an ongoing basis, capital adequacy is measured and monitored against target capital ratios. These target levels are derived from the bank's risk appetite and strategy and quantified by the ICAAP. The allocation is derived from the ICAAP. This process ensures that the bank is operating in line with its risk appetite.

Capital structure

BNG Bank's capitalization is well above the capital requirements laid down in the Capital Requirement Regulations and Capital Requirements Directive IV (CRD IV). The capital structure consists mainly of common equity. The other part consists of Additional Tier 1 instruments.

The two tables on the next pages show the structure of the regulatory capital. The tables present the capital.

31-12-2021

	Capital	IFRS Equity
Paid-up capital	139	139
Share premium	6	6
Retained earnings from previous years	3,736	3,736
Unappropriated profit		236
Accumulated other comprehensive income		
- Cash flow hedge reserve	1	1
- Cost of hedging	125	125
- Own credit adjustment	3	3
- Revaluation reserve	83	83
Common equity Tier 1 (CET1) capital before regulatory adjustments	**4,093**	**4,329**
Adjustments to CET1 capital as a result of prudential filters:		
- Distributable dividend (previous year)	-	
- Cash flow hedge reserve	-1	
- Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	-3	
- Own credit risk for Financial liabilities at fair value through the income statement	0	
- Value adjustments due to the prudential valuation requirements	-9	
- Intangible assets	-	
- Expected credit loss allowance of Financial assets at fair value through OCI	0	
- Insufficient coverage for non-performing exposures	-	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	0	
CET1 capital	**4,080**	
Additional Tier 1 capital:	733	733
Tier 1 capital	**4,813**	

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Total equity	**4,813**	**5,062**

31-12-2020

	Capital	IFRS Equity
Paid-up capital	139	139
Share premium	6	6
Retained earnings from previous years	3,712	3,712
Unappropriated profit		221
Accumulated other comprehensive income		
- Cash flow hedge reserve	11	11
- Cost of hedging	184	184
- Own credit adjustment	5	5
- Revaluation reserve	86	86
Common equity Tier 1 (CET1) capital before regulatory adjustments	**4,143**	**4,364**
Adjustments to CET1 capital as a result of prudential filters:		
- Distributable dividend (previous year)	-71	
- Cash flow hedge reserve	-11	
- Cumulative gains and losses arising from the bank's own credit risk related to derivatives liabilities	-	
- Own credit risk for Financial liabilities at fair value through the income statement	-5	
- Value adjustments due to the prudential valuation requirements	-5	
- Intangible assets	-	
- Expected credit loss allowance of Financial assets at fair value through OCI	-1	
Deduction of capital for securitisation positions eligible as alternatives for a risk weight of 1250%	-	
CET1 capital	**4,050**	
Additional Tier 1 capital:	733	733
Tier 1 capital	**4,783**	
Total equity	**4,783**	**5,097**

Prudential filters

BNG Bank applies the following prudential filters to the CET1 capital:

- The cash flow hedge reserve is eliminated.
- The benefits arising from own credit risk (DVA) in derivatives transactions are eliminated.
- The benefits arising from 'own credit risk' in relation to obligations classified as Financial liabilities at fair value through the income statement are eliminated.
- Due to the regulations on prudent valuation, an adjustment is calculated in relation to the balance sheet valuation of assets and liabilities that are carried at fair value
- The investments in the development of software is activated and amortised over three years. After a correction for 'deferred tax', the total of these intangible assets is deducted.
- The expected credit loss allowance of Financial assets at fair value through OCI.

Deductible items
In 2018, BNG Bank opted to reduce the CET1 capital by securitisation positions that are eligible for 1,250% solvency weighting. In 2021, there were no securitisation positions with a solvency rating of 1,250%.

Adjustments in CRD IV/CRR transition phase
The portion of the revaluation reserve related to Financial assets at fair value through OCI are fully included in the CET1 capital in 2021 and 2020.

Additional Tier 1 capital
For a clarification, please refer to note 22 of the Notes to items of the consolidated financial statements.

Related parties

Transactions with related parties

Transactions with related parties were made on terms equivalent to those that prevail in arm's length.

Entities with control, joint control or significant influence over BNG Bank

The State of the Netherlands owns 50% of the shares and voting rights of BNG Bank. As the other half of the shares is divided between a large number of shareholders, the State of the Netherlands has de facto control over BNG Bank. The holders of hybrid capital do not fall within the definition of related parties, as they have no (joint) control or significant influence over BNG Bank. BNG Bank has direct exposure to the State of the Netherlands in the form of purchased, publicly tradable government securities. The bank also has a large portfolio of loans and advances with direct guarantees from the State, or with guarantees from the WSW (social housing) and WFZ (Healthcare) guarantee funds, for which the State of the Netherlands acts as a backstop.

Subsidiaries

This relates to the BNG Bank subsidiaries Hypotheekfonds voor Overheidspersoneel and BNG Gebiedsontwikkeling included in the consolidation. BNG Bank has intercompany transactions with these parties, which consist of the issue of private loans and advances, credit balances held in current accounts and off-balance sheet commitments. All of these intercompany transactions are eliminated from the figures in and notes to the consolidated financial statements.

Associates, joint ventures and joint operations

This relates to associates, as well as joint ventures and joint operations entered into by BNG Gebiedsontwikkeling. A list of these parties is provided in a separate note in these financial statements. Transactions with these contacts consist of loans and advances, credit balances held in current accounts and off-balance sheet commitments (the undrawn portions of credit facilities).

Executive Board members of the bank

BNG Bank has not granted any loans, advance payments or guarantees to individual members of the Executive Committee or Supervisory Board of BNG Bank.

	31-12-2021	31-12-2020
State of the Netherlands		
Direct exposure in the form of purchased government securities	1,061	1,325
Lending with direct guarantees from the State	678	717
Lending with indirect guarantees from the State (WSW/WFZ)	46,818	45,327
Subsidiaries		
Lending to subsidiaries	76	95
Credit balances held by subsidiaries	16	25
Off-balance sheet commitments to subsidiaries	-	-
Associates, joint ventures and joint operations		
Lending to associates, joint ventures and joint operations	49	66
Credit balances held by associates, joint ventures and joint operations	10	8
Off-balance sheet commitments to associates, joint ventures and joint operations	30	56

BNG Bank's principal decision-making bodies

The most important decisions and acts of management are taken and carried out by the Executive Board. The policy pursued is assessed and supervised by the Supervisory Board.

Remuneration

Since 2020, BNG Bank's remuneration policy consists solely of fixed remuneration components. The total fixed remuneration, granted to 'Identified Staff', i.e. individuals with direct influence on the bank's policy and risks, was EUR 6.0 million in 2021 (2020: EUR 5.5 million). The Identified Staff comprises 38 individuals in 2021 (2020: 33).

The remuneration of the Identified Staff can be divided into three groups: Executive Committee, senior management directly reporting to Executive Board members and other Identified Staff.

(amounts in thousands of euros)	2021		2020
	Fixed remuneration	One-off payment	Fixed remuneration
Executive Committee	1,359	419	1,043
Senior management	2,790	417	2,563
Other identified staff	1,877	-	1,903
Total	**6,026**	**836**	**5,509**

In addition, the bank pays a monthly employer's pension contribution. Since 1 January 2015, pension accrual over salary in excess of EUR 100,000 is no longer possible under the current ABP pension plan. As a consequence of this cap for tax purposes and the lower pension accrual, BNG Bank decided to compensate the employees concerned who were in the bank's employment on 1 January 2015 for lower pension accrual. The compensation is fixed as per 1 january 2015 and will not change over the years.

Remuneration of the Executive Committee

The remuneration of the Executive Committee is based on the principles formulated in the Remuneration Policy, the highlights of which are included in the Report of the Supervisory Board. The complete Remuneration Policy is published on bngbank.nl. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the general Collective Labour Agreement for the banking industry. As per 2021 no deferred variable remuneration occurs. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Remuneration awarded to Executive Committee members

	2021	2020	2021	2020	2021	2020	2021	2020
	Fixed remuneration		One-off payment		Pension contributions		Compensation for pension accrual over salary >100K	
G.J. Salden	318	316	-	-	29	27	-	-
O.J. Labe	344	341	-	-	30	28	29	29
J.C. Reichardt (until 14-4-2021)	112	386	419	-	9	30	10	35
C.A.M. van Atteveldt (from 15-02-2021)	258	-	-	-	24	-	-	-
T.M.P. Eterman (from 01-06-2021)	138	-	-	-	15	-	-	-
J. van Goudswaard (from 01-03-2021)	189	-	-	-	22	-	-	-
Total	**1,359**	**1,043**	**419**	**-**	**129**	**85**	**39**	**64**

The remuneration awarded in the reporting period is the remuneration which has been recognised as an expense in full in the income statement. The income statement for 2021 includes EUR 2 million (2020: EUR 1 million) in remuneration, one-off payments and pension costs. The total short-term remuneration comprises the fixed remuneration and the compensation for pension accrual over salary in excess of EUR 100,000.

The Chair of the Executive Committee received an allowance for business expenses of EUR 5,100 in 2021 (2020: EUR 5,100). The allowance for the other statutory members of the Executive Committee is minimum EUR 3,900 in 2021 (2020: EUR 3,900).

Remuneration of the Supervisory Board

Effective from 1 January 2017 the remuneration of the Supervisory Board can increase by the same percentage as the increases under the Collective Labour Agreement for the Banking Industry. The remuneration policy for the Supervisory Board is directed towards market compatible remuneration that is irrespective of the company's result. The total remuneration of the Supervisory Board increased by 11% in 2021 (2020: increase of 2%). The increase is due to a temporary increase of the number of Supervisory Board members. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit Committee & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chair of the Supervisory Board received an allowance in addition to the basic remuneration. These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,100 (2020: EUR 1,000).

Members who served on one or more committees received an additional expense allowance per committee of EUR 500 (Audit Committee and Risk Committee) and EUR 300 (Remuneration Committee and Human Resource Committee), respectively.

The amounts presented below are in thousands of euros. These figures include additional payments and expense allowances and exclude VAT.

	2021	2020
H. Arendse, chair	48	41
J.C.M. van Rutte, Vice-chair	34	34
Ms K.T. Bergstein (from 22 April 2021)	26	-
C.J. Beuving	38	38
J.B.S. Conijn	34	34
Ms M.E.R. van Elst	34	34
L.K. Geluk (from 22 April 2021)	23	-
Ms J. Kriens (until 22 april 2021)	10	31
Ms M. Sint (until 22 april 2021)	16	49
Ms. F. de Vries (from 22 April 2021)	26	-
Total	**289**	**261**

Off-balance sheet positions

Contingent assets

Due to an internal procedural error, DNB did not grant BNG Bank the TLTRO-III interest rate rebate related to the period from 24 June 2020 up to and including 23 June 2021 for an amount of EUR 57 million before taxes, despite rectifying measures. Having received legal advice BNG Bank has argued this DNB decision and the bank believes that a favourable outcome is more likely than not.

Contingent liabilities

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

	31-12-2021	31-12-2020
Contingent liabilities	501	1,517

Revocable facilities

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

	31-12-2021	31-12-2020
Revocable facilities	5,871	3,676

Irrevocable facilities

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

	31-12-2021	31-12-2020
Outline agreements concerning the undrawn part of credit facilities	1,990	3,405
Contracted loans and advances to be distributed in the future	2,497	2,289
Total	**4,487**	**5,694**

According to contract, these contracted loans and advances will be distributed as follows:

	31-12-2021	31-12-2020
Up to 3 months	847	494
3 to 12 months	671	370
1 to 5 years	939	1,403
Over 5 years	40	22
Total	**2,497**	**2,289**

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 0.62% (2020: 0.71%). BNG Bank states these obligations at the underlying, not yet recorded, principal amount.

Encumbered financial assets and liabilities

A part of the financial assets and liabilities is encumbered because these assets serve to secure and act as collateral for money market transactions and lending transactions. The following table shows the nominal sheet values and the collateral values.

	31-12-2021		31-12-2020	
	Nominal value	Collateral value	Nominal value	Collateral value
Type of collateral				
Collateral pledged to the central bank[1]	47,921	35,209	38,628	28,612
Securities provided in derivatives transactions	2,368	3,930	2,090	2,601
Cash deposited in relation to derivatives transactions	14,321	14,314	20,270	20,262
Given as collateral	**64,610**	**53,453**	**60,988**	**51,475**
Securities received in derivatives transactions	-	-	-	-
Cash received in relation to derivatives transactions	1,054	1,054	858	858
Received as collateral	**1,054**	**1,054**	**858**	**858**
Total	**63,556**	**52,399**	**60,130**	**50,617**

1 Of the total value of loans provided as collateral to the central bank, only a part has actually been used as collateral. At year-end 2021, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 20.825 million (year-end 2020: EUR 11.345 million).

Liability of Board members

Members of the Executive and Supervisory Boards of the company are indemnified by the company against any personal liability, except in the case of deliberate intent or gross negligence. In addition, the company has taken out a directors' liability insurance policy for members of the Executive and Supervisory Boards and employees acting on the company's behalf as members of the Executive Board or Supervisory Board of one or more of the company's associates.

Events after the balance sheet date

With regards to the Russia-Ukraine conflict we acknowledge there will be impact on global economy, Dutch economy, BNG Bank's clients and BNG Bank's financial position. The severity of the impact is currently unsure.

There are no other events after the balance sheet date to report that require adjustments to the figures or disclosure in the financial statements.

Proposed profit appropriation

Amounts in millions of euros

	2021	2020
Net profit	**236**	**221**
Compensation on hybrid capital	-25	-19
Profit attributable to shareholders	**211**	**202**
Appropriation of profit attributable to the bank's shareholders is as follows:		
Appropriation to the 'Retained earnings' pursuant to Article 23(3) of the BNG Bank Articles of Association	21	14
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	28	**21**
Appropriation to the 'Retained earnings' pursuant to Article 23(4) of the BNG Bank Articles of Association	84	87
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	99	94
	183	**181**

The profit appropriation is based on the total net profit for 2021. The proposed dividends have no consequences for tax purposes. The compensation takes into account the EUR 25 million already paid on the hybrid capital in May 2021 charged to the Other reserves (EUR 19 million after tax).

Associates and joint ventures

	31-12-2021	31-12-2020
Associates Dataland BV, Rotterdam A municipal non-profit initiative that aims to make information on registered properties – as held by municipalities and/or other public entities – available to a wide audience.	30%	30%
Data B Mailservice Holding BV, Leek Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.	45%	45%

	31-12-2021	31-12-2020
Joint ventures entered into by BNG Gebiedsontwikkeling BV Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have an equal voting right, which means that no single party has control.		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV te Nederweert Development and allocation of land for industrial estates	0%	50%
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor Zenkeldamshoek Beheer BV, Goor Development and allocation of land for industrial estates	80% 50%	80% 50%
De Bulders Woningbouw CV De Bulders Woningbouw BV Development and allocation of land for industrial estates	50% 50%	50% 50%
Ontwikkelingsmaatschappij Westergo BV, Harlingen Development and allocation of land for industrial estates	50%	50%
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' CV, The Hague Ontwikkelingsmaatschappij 'Het Nieuwe Westland' BV, The Hague Development and allocation of land for residential construction	50% 50%	50% 50%
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague ROM-S Beheer BV (Schelluinen) te The Hague Development and allocation of land for industrial estates and car parking facilities	50% 50%	50% 50%
Project Suijssenwaerde CV, The Hague Project Suijssenwaerde Beheer BV, The Hague Development and allocation of land for residential construction and recreational housing	80% 50%	80% 50%
CV Bedrijvenpark Oostflakkee, The Hague Bedrijvenpark Oostflakkee Beheer BV, The Hague Development and allocation of land for industrial estates	80% 50%	80% 50%

Continuation of previous page	31-12-2021	31-12-2020
SGN Bestaand Rijsenhout CV, The Hague	50%	50%
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	43%
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	50%
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	50%
SGN Advies BV Beheer, The Hague	50%	50%
Stallingsbedrijf Glastuinbouw Nederland Groep BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		

Summarised financial information

	2021	2020
Associates		
Balance sheet value of investment (note 10)	3	3
Value of the share in:		
Total assets	5	4
Total liabilities	1	1
Income	5	4
Result from continued operations	1	1
Equity	3	3
Comprehensive income	2	2

	2021	2020
Joint ventures entered into by BNG Gebiedsontwikkeling BV		
Balance sheet value of investment (note 10)	25	28
Value of the share in:		
Total assets	66	58
Total liabilities	36	29
Income	13	29
Result from continued operations	6	-1
Equity	30	28
Comprehensive income	30	28

BNG Gebiedsontwikkeling (a wholly-owned BNG Bank subsidiary) invests in and develops land on its own account in collaboration with local authorities. This collaboration takes the form of a joint venture involving the use of limited partnerships. The risk incurred by BNG Bank is the total amount of capital invested in the participating interest, increased by further future payments obligations and retained profits. At year-end 2021, this risk amounted to EUR 25 million of Joint ventures and 8 million for Joint ventures held-for-sale (2020: Joint ventures of EUR 28 million), none of this is related to future payment obligations (2020: EUR 0 million).

Involvement in non-consolidated structured entities

	2021	2020
Securitisations		
Scope	31,983	21,623
Involvement in entity (balance sheet value/size in %)	22%	21%
Balance sheet value of interest/investment:		
Interest-bearing securities at amortised cost (from note 8)	4,833	4,635
Total balance sheet value	**4,833**	**4,635**
Maximum exposure	4,833	4,653
Ratio of balance sheet value vs maximum exposures	1	1
Amount in revenue per type:		
Fund return	N/A	N/A
Management fee	N/A	N/A
Interest revenue	-3	2
Results from sales	0	0
Total revenue	**-3**	**2**

Involvement in non-consolidated securitisation and covered bond programmes via structured entities

BNG Bank has investments in securitised interest-bearing securities covered by additional security through non-consolidated structured entities. Mortgage portfolios serve as collateral for the securitisations and covered bonds. The funds funded by investors, including BNG Bank, serve to finance the underlying mortgages. The structured entities are independent entities that do not carry out any activities other than managing investments and the associated money flows. Apart from its interest as an investor in interest-bearing securities, BNG Bank has not financed these structured entities or supported them in any other way, nor does it have any intention to do so in the near future. The bank has not transferred any assets to these structured entities.

The Hague, 18 March 2022

Executive Board
Gita Salden (CEO), statutory director
Olivier Labe (CFO), statutory director
Cindy van Atteveldt - Machielsen (CRO), statutory director

Supervisory Board
Huub Arendse, Chair
Jan van Rutte, Vice-chair
Karin Bergstein
Kees Beuving
Johan Conijn
Marlies van Elst
Leonard Geluk
Femke de Vries

8.2 Company financial statements

Company balance sheet

Amounts in millions of euros	NOTE	31-12-2021	31-12-2020
Assets			
Cash and balances held with central banks	1	9,264	2,312
Amounts due from banks	2	163	120
Cash collateral posted	3	12,993	20,361
Financial assets at fair value through the income statement	4	1,383	1,452
Derivatives	5	5,685	8,540
Financial assets at fair value through other comprehensive income	6	8,572	9,738
Interest-bearing securities at amortised cost	7	7,632	7,880
Loans and advances	8	89,710	88,921
Value adjustments on loans in portfolio hedge accounting	9	13,555	20,816
Associates and joint ventures	10	58	54
Property & equipment	11	15	17
Current tax assets	17	-	1
Other assets	12	20	149
Total assets		**149,050**	**160,361**
Liabilities			
Amounts due to banks	13	19,525	12,221
Cash collateral received	14	984	858
Financial liabilities at fair value through the income statement	15	310	656
Derivatives	16	16,935	26,965
Debt securities	18	101,355	108,615
Funds entrusted	19	4,521	5,603
Subordinated debts	20	36	35
Current tax liabilities	17	30	-
Deferred tax liabilities	17	77	98
Other liabilities	21	215	213
Total liabilities		**143,988**	**155,264**
Equity			
Share capital		139	139
Share premium reserve		6	6
Legal reserves			
- Revaluation reserve		83	86
- Cash flow hedge reserve		1	11
- Reserve for fair value increases		173	186
Retained earnings		3,563	3,526
Own credit adjustment		3	5
Cost of hedging reserve		125	184
Net profit		236	221
Equity attributable to shareholders	22	**4,329**	**4,364**
Hybrid capital	22	733	733
Total equity	22	**5,062**	**5,097**
Total liabilities and equity		**149,050**	**160,361**

Company income statement

Amounts in millions of euros	NOTE		2021		2020
- Interest revenue calculated using the effective interest method		4,195		4,513	
- Other interest revenue		216		362	
Total interest revenue		4,411		4,875	
- Interest expenses calculated using the effective interest method		3,919		4,313	
- Other interest expenses		85		85	
Total interest expenses		4,004		4,398	
Interest result	23		407		477
- Commission income		20		29	
- Commission expenses		3		4	
Commission result	24		17		25
Result on financial transactions	25		100		-17
Results from participating interest	26		5		1
Other results			0		0
Total income			**529**		**486**
Staff costs	27		56		47
Other administrative expenses	28		47		46
Depreciation	29		3		3
Other operating expenses			0		0
Total operating expenses			**106**		**96**
Net impairment losses on financial assets	30		20		16
Net impairment losses on associates and joint ventures			-		-
Contribution to resolution fund	31		2		8
Bank Levy	31		53		34
Total other expenses			**75**		**58**
Profit before tax			**348**		**332**
Income tax expense			112		111
Net profit			**236**		**221**
- of which attributable to the holders of hybrid capital			25		19
- of which attributable to shareholders			211		202

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

Company statement of comprehensive income

Amounts in millions of euros. All figures in the statement are after taxation.		2021		2020
Net profit		**236**		**221**
Recyclable results recognised directly in equity				
Changes in cash flow hedge reserve:				
- Unrealised value changes	-10		-2	
- Realised value changes transferred to the income statement	-		-	
		-10		- 2
Changes in cost of hedging reserve				
- Unrealised value changes	-62		20	
- Realised value changes transferred to the income statement	3		- 10	
		-59		10
Changes in the revaluation reserve for financial assets at fair value through other comprehensive income				
- Unrealised value changes	45		32	
- Realised value changes transferred to the income statement	-48		- 30	
		-3		2
Total recyclable results		**-72**		**10**
Non-recyclable results recognised directly in equity:				
- Change in fair value attributable to change in credit risk of financial liabilities designated at FVTPL	-2		-3	
- Movement in actuarial results				
Total non-recyclable results		**-2**		**-3**
Results recognised directly in equity		**-74**		**7**
Total		**162**		**228**
- of which attributable to the holders of hybrid capital		25		19
- of which attributable to shareholders		137		209

Company cash flow statement

Amounts in millions of euros	2021	2020
Cash flow from operating activities		
Profit before tax	348	332
Adjusted for:		
- Depreciation	3	3
- Impairments	20	16
- Unrealised results through the income statement	-43	56
Changes in operating assets and liabilities:		
- Changes in Amounts due from and due to banks (not due on demand)	-194	-537
- Changes in Cash collateral posted and received	6,359	-5,864
- Changes in repos and reverse repos	-	-
- Changes in Loans and advances	1,151	-637
- Changes in Funds entrusted	-1,138	184
- Changes in Derivatives	574	-1,416
- Corporate income tax paid	-81	-71
- Other changes from operating activities	-393	-212
Net cash flow from operating activities	**6,606**	**-8,146**
Cash flow from investing activities		
Investments and acquisitions pertaining to:		
- Financial assets at fair value through the income statement	-9	-146
- Financial assets at fair value through other comprehensive income	-8,322	-5,016
- Interest-bearing securities at amortised cost	-850	-1,862
- Investments in associates and joint ventures	-	-
- Property and equipment	-1	-2
Disposals and redemptions pertaining to:	82	
- Financial assets at fair value through the income statement	9,215	496
- Financial assets at fair value through other comprehensive income	1,211	4,553
- Interest-bearing securities at amortised cost	-	1,821
Net cash flow from investing activities	**1,326**	**-156**
Cash flow from financing activities		
Amounts received on account of:		
- Central bank financing (TLTRO)	7,500	11,000
- Financial liabilities at fair value through the income statement	-	0
- Debt securities	285,071	219,779
Amounts paid on account of:		
- Financial liabilities at fair value through the income statement	-354	-8
- Debt securities	-292,980	-221,405
- Subordinated debt	-1	-
- Compensation on hybrid capital	-25	-25
- Dividend distribution to shareholders	-172	-
Net cash flow from financing activities	**-961**	**9,341**
Net change in cash and cash equivalents	**6,971**	**688**
Cash and cash equivalents as at 1 January	2,315	1,276
Cash and cash equivalents as at 31 december	**9,286**	**1,964**

Continuation of previous page

Company cash flow statement

Cash and cash equivalents as at 31 December:		
- Cash and balances held with central banks	9264	2,312
- Cash equivalents in the Amount due from banks item	23	4
- Cash equivalents in the Amount due to banks item	-1	-1
	9,286	**2,315**

Notes to cash flow from operating activities		
Interest income received	4,363	5,875
Interest expenses paid	-3,990	-5,549
	373	**326**

Company statement of changes in equity

Amounts in millions of euros. All figures in the statement are after taxation.	Share capital	Share premium reserve	Revaluation reserve	Cashflow hedge reserve	Reserve for fair value increase	Own credit adjustment	Cost of hedging reserve	Retained earnings	Unappropriated profit	Equity attributable to shareholders	Hybrid capital	**Total**
Balance as at 01/01/2020	**139**	**6**	**84**	**13**	**129**	**8**	**174**	**3,601**	**0**	**4,154**	**733**	**4,887**
Total comprehensive income			**2**	**-2**		**-3**	**10**		**221**	**228**		**228**
Transfer to reserve for fair value increases					57			-57		0		**0**
Dividend distribution to the bank's shareholders										0		**0**
Compensation to holders of hybrid capital								-18		-18		**-18**
Balance as at 31/12/2020	**139**	**6**	**86**	**11**	**186**	**5**	**184**	**3,526**	**221**	**4,364**	**733**	**5,097**
Appropriation from previous year's profit								221	-221	0		**0**
Balance as at 01/01/2021	**139**	**6**	**86**	**11**	**186**	**5**	**184**	**3,747**	**-**	**4,364**	**733**	**5,097**
Total comprehensive income			**-3**	**-10**		**-2**	**-59**		**236**	**162**		**162**
Transfer to reserve for fair value increases					-13			13		0		**0**
Dividend distribution to the bank's shareholders								-172		-172		**-172**
Compensation to holders of hybrid capital								-25		-25		**-25**
Balance as at 31/12/2021	**139**	**6**	**83**	**1**	**173**	**3**	**125**	**3,563**	**236**	**4,329**	**733**	**5,062**

BNG Bank has not recognised any results from minority interests in the equity which is attributable to third parties. With the exception of hybrid capital, the entire equity is attributable to the shareholders.

Accounting principles for the company financial statements

The company financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and adopted throughout the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. The company financial statements are prepared in (millions of) euros, unless stated otherwise. The euro is used as the functional and reporting currency of BNG Bank. As far as the financial accounting principles are concerned, reference is made, with the exception of the accounting principles mentioned below, to the notes to the accounting principles for the consolidated financial statements.

Participating interests
The balance sheet item Participating interests is stated according to the equity method.

Statutory reserve for fair value increases
Pursuant to Section 2:390 sub 1 of the Dutch Civil Code, for capital protection purposes a statutory reserve must be maintained at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit) in relation to fair value increases of financial instruments stated as assets in the balance sheet for which there is no regular market quotation.

Notes to the company financial statements

Amounts in millions of euros

Notes 30 and 33 provide an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2021.

Note 34 to the consolidated financial statements includes a breakdown of balance sheet values by remaining contractual maturity (due on demand and not due on demand).

For the related party disclosures, please refer to the consolidated financial statements.

1 Cash and balances held with central banks

	31-12-2021	31-12-2020
Cash on hand	0	0
Current account balances with the central bank (due on demand)	9,264	2,312
Total	**9,264**	**2,312**

2 Amounts due from banks

The Amounts due from banks item includes all receivables from banks measured at amortised cost.

	31-12-2021	31-12-2020
Short-term loans and current account balances	23	5
Long-term lending	140	115
Total	**163**	**120**

3 Cash collateral posted

The cash collateral is posted with third parties under netting agreements and as such is not freely available to BNG Bank.

4 Financial assets at fair value through the income statement

This item includes:
- Financial assets mandatorily measured at fair value through profit or loss. This concerns financial assets that have failed to pass the SPPI test; and
- Financial assets designated as measured at fair value through profit or loss.

	31-12-2021	31-12-2020
Mandatorily measured at FVTPL		
Loans and advances	69	89
Designated as measured at FVTPL		
Loans and advances	464	538
Interest-bearing securities	850	825
Total	**1,383**	**1,452**

The total redemption value of these loans and advances and interest bearing securities at year-end 2021 is EUR 979 million (2020: EUR 939 million). Note 25 explains the changes in fair value recognised through the income statement.

5 Derivatives

This balance sheet item includes the positive fair value of derivatives not settled-to-market. Note 25 explains the changes in fair value recognised through the income statement.

	31-12-2021	31-12-2020
Derivatives not involved in a hedge accounting relationship	267	196
Derivatives involved in a portfolio hedge accounting relationship	2,248	3,713
Derivatives involved in a micro hedge accounting relationship	3,156	4,601
Receivables related to STM derivative contracts	14	30
Total	**5,685**	**8,540**

6 Financial assets at fair value through other comprehensive income

This includes purchased interest-bearing securities that are held within the Hold to Collect and Sell business model and for which the bank has not used the fair value option.

	31-12-2021	31-12-2020
Governments	5,267	6,312
Supranational organisations	1,405	1,417
Credit institutions	1,900	2,009
Other financial corporations	-	-
Non-financial corporations	-	-
Total	**8,572**	**9,738**

Transfers without derecognition

At year-end 2021, BNG Bank had transferred EUR 218 million (2020: 222 million) of financial assets at fair value through other comprehensive income without derecognition in repurchase transactions.

7 Interest-bearing securities at amortised cost

This includes purchased interest-bearing securities that are held within the Hold-to-Collect business model and for which the bank has not used the fair value option.

	31-12-2021	31-12-2020
Governments	1,318	1,491
Other financial corporations	5,295	5,216
Non-financial corporations	1,021	1,179
Allowance for credit losses	-2	-6
Total	**7,632**	**7,880**

At year-end 2021, BNG Bank had transferred EUR 521 million (2020: 139 million) of interest-bearing securities at amortised cost without derecognition in repurchase transactions.

8 Loans and advances

The Loans and advances item includes short-term and long-term loans to clients insofar as they pass the SPPI test, as well as current account debit balances held by clients. All positions are held within the Hold-to-Collect business model.

	31-12-2021	31-12-2020
Short-term loans and current account balances	2,603	3,504
Long-term lending	87,335	85,626
	89,938	**89,130**
Allowance for credit losses	-228	-209
Total	**89,710**	**88,921**

9 Value adjustments on loans in portfolio hedge accounting

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

	2021	2020
Movements of value adjustments on loans in portfolio hedge accounting		
Opening balance	20,816	16,462
Movements in the unrealised portion in the financial year	-6,021	6,094
Amortisation in the financial year	-1,164	-1,581
Realisation from sales in the financial year	-76	-159
Closing balance	**13,555**	**20,816**

10 Participating interests

	31-12-2021	31-12-2020	31-12-2021	31-12-2020
	Participating share		Balance sheet value	
Subsidiaries				
BNG Gebiedsontwikkeling BV, The Hague	100%	100%	49	45
Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	6	6
Subtotal			**55**	**51**
Associates				
Dataland BV, Rotterdam	30%	30%	0	0
Data B Mailservice BV, Leek	45%	45%	3	3
Subtotal			**3**	**3**
Total			**58**	**54**

For a description of the bank’s subsidiaries and associates, please refer to section 'Other information' of this document and to section 'Associates and joint ventures', respectively, of the consolidated financial statements. For summarised financial information on associates, refer to section ‘Summarised financial information’.

Held-for-sale

11 Property and equipment

	2021	2020	2021	2020	2021	2020	2021	2020
	Property		Equipment		Right-of-use-asset		Total	
Historical cost								
Opening balance	**49**	**49**	**26**	**24**	**2**	**2**	**77**	**75**
Investments	-	-	1	2	0	0	1	2
Disposals	-	-	-	-	-	-	-	-
Value as at 31 December	**49**	**49**	**27**	**26**	**2**	**2**	**78**	**77**
Depreciation								
Accumulated depreciation as at 1 January	38	38	22	19	0	0	60	57
Depreciation during the year	1	0	2	3	0	0	3	3
Accumulated depreciation as at 31 December	**39**	**38**	**24**	**22**	**0**	**0**	**63**	**60**
Total	**10**	**11**	**3**	**4**	**2**	**2**	**15**	**17**

Estimated useful life	
Buildings	33 ⅓ years
Technical installations	15 years
Machinery and inventory	5 years
Right-of-use asset	5 years
Hardware and software	3 years

No property or equipment is pledged as security of liabilities.

12 Other assets

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

13 Amounts due to banks

	31-12-2021	31-12-2020
Current account balances	1	1
Central bank funding (TLTRO)	18,350	10,950
Deposits	666	715
Private loans	508	555
Total	**19,525**	**12,221**

14 Cash collateral received

The cash collateral is received from third parties under netting agreements and as such is not freely available to BNG Bank.

15 Financial liabilities at fair value through the income statement

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

	31-12-2021	31-12-2020
Publicly placed debt securities	292	387
Privately placed debt securities	18	269
Total	**310**	**656**

The total redemption value of the debt securities at year-end 2021 is EUR 265 million (2020: EUR 490 million). The difference between the financial liability's carrying amount and the redemption value at year-end 2021 is EUR 44 million (2020: EUR 166 million). Financial liabilities are measured at fair value through the income statement on the relevant funding curve including a mark-up for 'own credit risk'. The total change in value (before tax) was EUR 4 million negative (2020: EUR 6 million positive). Changes in fair value due to own credit risk are recognised through other comprehensive income. These changes are determined by comparing the valuation using the relevant funding curve including a mark-up for 'own credit risk' and the valuation using the relevant funding curve without this mark-up. Note 25 explains the changes in value recognised through the income statement.

16 Derivatives

This balance sheet item includes the negative fair value of derivatives not settled-to-market. Note 25 explains the changes in fair value recognised through the income statement.

	31-12-2021	31-12-2020
Derivatives not involved in a hedge accounting relationship	724	1,131
Derivatives involved in a portfolio hedge accounting relationship	14,879	23,525
Derivatives involved in a micro hedge accounting relationship	1,332	2,179
Payables related to STM derivatives contracts	1	130
Total	**16,936**	**26,965**

17 Taxes

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

	31-12-2021	31-12-2020
Current tax assets	0	1
Current tax liability	-30	0
Deferred tax liabilities	-77	-98
Total	**-107**	**-97**

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') in 2021 in accordance with IFRS 9, for the period 2021-2023. The bilateral agreement applies to the BNG Bank fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets at fair value through the income statement. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The result for tax purposes differs from the result for reporting purposes if, on balance, unrealised losses have arisen. If the revaluation reserve increases, the positive amount is added to the annual profit for tax purposes up to the level at which the cost price is reached.

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

	2021	2020
Nominal and effective tax rate		
Profit before tax	350	332
Tax levied at the nominal tax rate	-88	-83
Tax adjustment from previous years	-	-
Participation exemption	-	0.5
Deductible interest on hybrid capital	6	-
Non-deductible costs (bank levy and thin cap)	-32	-28.7
Effective tax	**-114**	**-111**
Nominal tax rate	25.0%	25.0%
Effective tax rate	32.5%	33.4%

2021

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-29	1		-28
Cash flow hedge reserve	-65	20		-45
Own Credit Adjustment	-1	-		-1
Hybrid capital	-4	0		-4
Employee benefits provision	1	-		1
Total	**-98**	**21**	**-**	**-77**

2020

	Opening balance	Changes through equity	Changes through the income statement	Closing balance
Changes in deferred taxes				
Financial assets at fair value through other comprehensive income	-24	-5	-	-29
Cash flow hedge reserve	-53	-12	-	-65
Own Credit Adjustment	-2	1	-	-1
Hybrid capital	0	-4	-	-4
Employee benefits provision	1	-	-	1
Total	**-78**	**-20**	**0**	**-98**

18 Debt securities

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

	31-12-2021	31-12-2020
Bond loans	90,482	92,655
Commercial Paper	7,398	7,611
Privately placed debt securities	3,475	8,349
Total	**101,355**	**108,615**

19 Funds entrusted

	31-12-2021	31-12-2020
Current account balances	2,800	2,804
Short-term deposits	320	281
Long-term deposits	1,401	2,518
Total	**4,521**	**5,603**

20 Subordinated debt

	31-12-2021	31-12-2020
Subordinated debt	36	35
Total	**36**	**35**

21 Other liabilities

	31-12-2021	31-12-2020
Employee benefits provision	2	2
Other liabilities	213	211
Total	**215**	**213**

The employee benefits provision is made up of two parts, a provision for the interest rate discount on mortgage loans to both active and retired employees of EUR 1 million (2020: EUR 1 million) and a provision for vitality leave of EUR 1 million (2020: EUR 1 million). Both provisions have a long-term character.

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

	2021	2020
Employee benefits provision		
Net liability as at 1 January	2	2
Movements in the provision	0	0
Net liability as at 31 december	**2**	**2**

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

22 Equity

Since BNG Bank has no minority interests after consolidation, the entire consolidated equity, excluding hybrid capital, is attributable to shareholders. The items included in equity are explained below.

	31-12-2021	31-12-2020
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	83	86
Cash flow hedge reserve	1	11
Own credit adjustment	3	5
Cost of hedging	125	184
Reserve for fair value increases	173	186
Retained Earnings	3,563	3,526
Unappropriated profit	236	221
Equity attributable to shareholders	**4,329**	**4,364**
Hybrid capital	733	733
Total	**5,062**	**5,097**

	2021	2020
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	1.93	1.81
Proposed dividend		
- Primary dividend pursuant to the Articles of Association	7	7
- Proposed dividend above the primary dividend	100	94
Total	**107**	**101**

The proposed dividend distribution for 2021 takes into account the EUR 25 million compensation (before tax) that has already been paid on the hybrid capital in 2021. This payment was charged to the Retained earnings.

For the financial year 2020 a dividend of EUR 101 million was proposed to the General Meeting of Shareholders held in the first half of 2021. Due to the restricitions of the ECB the total dividend to be destributed for 2019 and 2020 amounted to EUR 172 million. In March 2021 BNG was allowed to distribute EUR 24 million to shareholders. The remaining dividend of EUR 148 million was distributed to shareholders in October 2021.

Share capital

The authorised capital is divided into 100 million shares with a nominal value of EUR 2.50 each, of which 55,690,720 shares have been issued and fully paid up. The number of shares in circulation remained unchanged during the financial year. BNG Bank and its subsidiaries hold no company shares.

None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

Share premium reserve
There were no movements in 2021 and 2020.

Revaluation reserve
At year-end 2021 the revaluation reserve of EUR 83 million includes EUR 338 million (2020: 749 million) in unrealised value changes, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets at fair value through other comprehensive income. The revaluation reserve has been adjusted for taxes. Upon the sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement.

Cash flow hedge reserve
The effective portion of the unrealised changes in the value of derivatives involved in a cash flow hedge relationship, resulting from changes in the foreign exchange rates, are recognised in the cash flow hedge reserve. The cash flow hedge reserve is adjusted for taxes.

Own credit adjustment
The Own Credit Adjustment amounts to EUR 3 million net of taxes (2020: EUR 5 million). This adjustment relates to changes in credit risk of financial liabilities measured at fair value through the income statement.

Cost of hedging reserve
The cost of hedging reserve records movements in foreign currency basis spreads in crosscurrency swaps involved in hedge accounting and is amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Retained earnings
After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the Retained earnings. In 2021, the payment of a dividend of EUR 101 million (2020: EUR 71 million) was scheduled. Due to the COVID-19 outbreak, the pay out of 2020 was postponed to 2021, strongly adviced by ECB. EUR 25 million (before tax) was distributed to the holders of the hybrid capital in 2021 (2020: EUR 25 million), charged to the Retained earnings. The Retained earnings include a share premium related to hybrid capital of EUR 0.1 million in total (2020: EUR 0.1 million).

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

Hybrid capital
The bank's hybrid capital amounts to EUR 733 million. The instruments are structured in line with CRR requirements and the EBA guidelines and qualifies as additional Tier 1 capital. Hybrid capital concerns perpetual loans involving an annual non-cumulative discretionary payment on the outstanding principal amount, subject to temporary write-down in the event that the CET1 ratio falls below 5.125%. In case of write-down, this amount will be transferred to the Retained earnings. Write-down from the Retained earnings can be reversed (write-up) under certain conditions at the moment that the trigger ratio is back above 5.125% again. BNG Bank is entitled to distribute the interest payment on a discretionary basis in the form of a compensation charged to the Other reserves. The compensation is determined on the basis of the prevailing principal amount. The distributed compensation is deductible for corporate income tax. BNG Bank has the unilateral contractual option to call the hybrid capital issued.

The tranches issued in 2015 (a nominal amount of EUR 424 million) could be repurchased at par on May 2021. The bank choosed not to repurchase the tranche, but repurchasing can be made in May of every year. The tranches issued in 2016 (a nominal amount of EUR 309 million) can be repurchased every year from May 2022.

23 Interest result

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

Interest expenses calculated by using the effective interest method include all negative interest results from both traditional financial instruments and derivatives involved in hedge accounting, including negative interest revenue on financial assets. The costs of borrowing as well as other interest-related charges are also recognised.

Other interest revenue and expenses consist mainly of interest results of derivatives not involved in hedge accounting and interest results of financial assets and liabilities measured at fair value.

		2021		2020
Interest revenue				
Interest revenue calculated by using the effective interest method:				
- Financial assets at amortised cost	1,861		2,053	
- Financial assets at fair value through other comprehensive income	70		113	
- Derivatives involved in hedge accounting	2,102		2,276	
- Negative interest expenses on financial liabilities	162		71	
		4,195		4,513
Other interest revenue:				
- Financial assets designated at fair value through the income statement	54		34	
- Financial assets mandatory at fair value through the income statement	2		3	
- Derivatives not involved in hedge accounting	160		325	
- Other	-		-	
		216		362
Total interest revenue		**4,411**		**4,875**
Interest expenses				
Interest expenses calculated by using the effective interest method:				
- Financial liabilities at amortised cost	1,285		1,893	
- Derivatives involved in hedge accounting	2,352		2,291	
- Negative interest expenses on financial assets	282		129	
		3,919		4,313
Other interest expenses				
- Financial liabilities designated at fair value through the income statement	25		30	
- Derivatives not involved in hedge accounting	57		48	
- Other	3		7	
		85		85
Total interest expenses		**4,004**		**4,398**
Total interest result		**407**		**477**

The interest revenue in 2021 includes EUR 11 million (2020: EUR 2 million) in interest revenue for financial assets, relating to Financial assets at amortised cost (notes 7 and 8) and Financial assets at fair value through other comprehensive income (note 6), which were subject to impairment.

24 Commission result

Commission income

This item includes income from services provided to third parties.

	2021	2020
Income from loans and credit facilities	11	19
Income from payment services	9	10
Total	**20**	**29**

Commission expenses

This item comprises expenses totalling EUR 3 million (2020: EUR 4 million) relating to services rendered by third parties in relation to loans, credit facilities and payment services.

25 Result on financial transactions

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

		2021		2020
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	-13		-24	
- Structured loans	4		-4	
		-9		-28
Result on hedge accounting				
- Portfolio fair value hedge accounting	65		-18	
- Micro fair value hedge accounting	-9		11	
- Micro cash flow hedge accounting	0		-3	
		56		-10
Change in counterparty credit risk of derivatives (CVA/DVA)		16		-3
Realised sales and buy-out results		59		39
Other market value changes		-22		-15
Total		**100**		**-17**

Also in 2021, the result on financial transactions was positively affected by hedge accounting and realised results. The realised results of EUR 59 million (2020: 39 million) are mainly due to on balance positive results on the sales from the liquidity portfolio of the bank.

The unrealised results amounted to EUR 41 million positive (2020: 56 million negative), mainly due to the increase of long-term interest rates. Also, the lower credit and liquidity risk spreads of most interest-bearing securities recorded under Financial assets at fair value through the income statement led to a less negative result of market value changes compared to 2020. In 2021 the result amounted to EUR 13 million negative (2020: 24 million negative). In 2020, these spreads were negatively impacted by the pandemic.

26 Results from participating interests

	2021	2020
Associates	5	1
Subsidiaries	0	0
Total	**5**	**1**

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

27 Staff costs

	2021	2020
Wages and salaries	32	28
Pension costs	5	5
Social security costs	3	3
Additions to the employee benefits provision	0	0
Other staff costs	16	11
Total	**56**	**47**

There was no variable remuneration of individual staff members in 2021 and 2020.

The increase in staff costs are mainly due to other costs from secondary conditions, training and the addition to the personnel provision.

28 Other administrative expenses

These expenses include, among other things, outsourcing costs, maintenance costs of property and equipment, consultancy costs, training expenses and IT expenses. The total other administrative expenses for 2021 amounted to EUR 47 million (2020: EUR 46 million).

29 Depreciation

A breakdown of this item is included in the note on Property and equipment (note 11). In total, the depreciation charges amounted to EUR 3 million in 2021 (2020: EUR 3 million).

30 Impairments

The impairments in 2021 amounted to a loss of EUR 20 million in the income statement (2020: EUR 16 million loss).

2021

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	3	1	5	9
- Decreases in allowances due to derecognition	-4	-1	-12	-17
- Changes in allowances due to changes in credit risk (net)	-5	-23	49	21
	-6	**-23**	**42**	**13**
Impairment results not due to movements in allowances:				
- Freefall in allowance due to write-off	-	-	8	8
- Reversal of impairment due to cash flows received from past write-offs	-	-	-1	-1
- Impairments due to write-offs	-	-	-	-
	-	**-**	**7**	**7**
Net impairment result on financial assets	**-6**	**-23**	**49**	**20**

2020

	Stage 1	Stage 2	Stage 3	Total
Impairment results due to movements in allowances:				
- Increases in allowances due to origination and acquisition	8	3	0	11
- Decreases in allowances due to derecognition	-6	-3	-3	-12
- Changes in allowances due to changes in credit risk (net)	2	-5	20	17
	4	**-5**	**17**	**16**
Impairment results not due to movements in allowances:				
- Reversal of impairment due to cash flows received from past write-offs	-	-	0	0
- Impairments due to write-offs	-	-	-	0
	-	**-**	**0**	**0**
Net impairment result on financial assets	**4**	**-5**	**17**	**16**

Movement in allowances for expected credit losses

2021

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	3	1	5	9
- Decreases in allowances due to derecognition	-4	-1	-12	-17
- Changes in allowances due to changes in credit risk (net)	-5	-23	49	21
	-6	**-23**	**42**	**13**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs	-	-	-	-
	-	**-**	**-**	**-**
Total movements in allowances	**-6**	**-23**	**42**	**13**

2021
2020

	Stage 1	Stage 2	Stage 3	Total
Movements in allowances taken through the income statement:				
- Increases in allowances due to origination and acquisition	8	3	0	11
- Decreases in allowances due to derecognition	-6	-3	-3	-12
- Changes in allowances due to changes in credit risk (net)	2	-5	20	17
	4	**-5**	**17**	**16**
Movements in allowances not taken through the income statement:				
- Decreases in allowance due to write-offs	-	-	-	-
	-	**-**	**-**	**-**
Total movements in allowances	**4**	**-5**	**17**	**16**

Note 33 provides an overview of the breakdown of financial assets subject to impairment into impairment stages, as well as details on the movement in the allowance for expected credit losses in 2021.

The changes in the incurred loss provision are included in the Loans and advances item (Note 8).

31 Contribution to resolution fund and bank levy

The European resolution regime arising from the Bank Recovery and Resolution Directive entered into force on 1 January 2015. The expenses for the resolution fund are deductible for corporate income tax purposes. The EUR 2 million payable for 2021 (2020: EUR 8 million) was paid in June 2021 and charged to the income statement.

The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy in October of every year, which for 2021 amounted to EUR 53 million (2020: EUR 34 million).

	2021	2020
The bank levy is calculated as follows:	basis 2020	basis 2019
Balance sheet total	160,361	149,689
Less: Tier 1 capital	4,904	4,692
Less: Deposits covered by the deposit-guarantee scheme	46	49
Taxable base	**155,411**	**144,948**
Less: Efficiency exemption	20,900	20,900
Taxable base	**134,511**	**124,048**
Total sum of debts with a maturity of less than one year	29,738	34,087
Total sum of all debts, according to the balance sheet	155,262	144,802
Bank levy on short-term debt	17	13
Bank levy on long-term debt	36	21
Total calculated/due	**53**	**34**

32 Fees of independent auditors

The following audit fees were reported in the income statement:

	2021	2020
Audit of the financial statements	391	362
Other audit services	298	433
Tax services	-	-
Other non-audit services	10	10
Total	**699**	**805**

The fees listed above relate to the procedures applied to the Company and its consolidated group entities by accounting firms and external independent auditors as referred to in Section 1, subsection 1 of the Audit Firms Supervision Act ('Wet toezicht accountantsorganisaties – Wta'). In the case of BNG Bank this is only applicable to Dutch based accounting firms (PwC the Netherlands accountants ('PwC NL'), including its tax services and advisory groups) as BNG Bank does not make use of foreign based accounting firms. The audit fees relate to the audit of the 2021 financial statements, regardless of whether the work was performed during the financial year.

Summary of services rendered by the independent auditor, in addition to the audit of the financial statements

Our independent auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

Other audit services required by law or regulatory requirements

- Statutory audits of controlled entities;
- Review of interim financial statements;
- Audit of the regulatory returns for the Dutch Central Bank;
- Assurance engagement credit claims for the Dutch Central Bank.

Other audit services

- Assurance engagement on the sustainability report;
- Comfort letters on annual update of debt issuance prospectus and drawdowns under the debt issuance programme;
- Assurance engagement on the TLTRO-report;
- Assurance engagement on the Deposito Garantee Scheme requirements.

Other non-audit services

- Agreed-upon procedure on the financial information for the Single Resolution Board.

33 Impairment of 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.
Stage 3: non-performing exposures.

31-12-2021

	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
Cash and balances held with central banks	9,264	9,264	-	-	-	-	-
Amounts due from banks	163	163	0	-	0	-	-
Cash collateral posted	12,993	12,993	-	-	-	-	-
Financial assets at fair value through OCI[1]	8,572	8,572	0	0	0	-	-
Interest-bearing securities at amortised cost	7,632	7,566	68	0	0	-2	-
Loans and advances	89,710	88,987	412	539	-6	-8	-214
Total	**128,334**	**127,545**	**480**	**539**	**-6**	**-10**	**-214**

31-12-2020

	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
Cash and balances held with central banks	2,312	2,312	-	-	-	-	-
Amounts due from banks	120	120	0	-	0	0	-
Cash collateral posted	20,361	20,361	-	-	-	-	-
Financial assets at fair value through OCI[1]	9,738	9,677	61	-	0	-1	-
Interest-bearing securities at amortised cost	7,880	7,714	172	-	-1	-5	-
Loans and advances	88,921	87,118	1,617	394	-9	-25	-173
Total	**129,332**	**127,302**	**1,850**	**394**	**-10**	**-31**	**-173**

1 The allowance for credit loss for financial assets at FVOCI is included in OCI and not in the (net) carrying amount.

31-12-2021

	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	499	1	1	0	0	-1
Revocable facilities	5,736	69	66	-	-	-
Irrevocable facilities	4,486	1	0	0	0	-
Total	**10,721**	**71**	**67**	**-**	**-**	**-1**

31-12-2020

	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	1,516	1	-	0	0	-
Revocable facilities	6,176	67	1	0	0	-
Irrevocable facilities	5,630	64	-	-2	-2	-
Total	**13,322**	**132**	**1**	**-2**	**-2**	**0**

Movements in allowances and provisions for expected credit losses

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

2021

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-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	-1	-	0
Interest-bearing securities at amortised cost	5	0	0	-3	-	2
Loans and advances	208	8	-16	28	-	228
	214	**8**	**-16**	**24**	**-**	**230**
Provision						
Off-balance sheet commitments	4	0	-1	-2	-	1

2020

	Opening balance	Increases due to origination and acquisition	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to wirte-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	0	0	-1	-	5
Loans and advances	191	8	-6	15	-	208
	198	**8**	**-6**	**14**	**0**	**214**
Provision						
Off-balance sheet commitments	5	2	-5	2	-	4

Other notes

For the details on other items, please refer to the notes to the consolidated financial statements.

The Hague, 18 March 2022

Executive Board
Gita Salden (CEO), statutory director
Olivier Labe (CFO), statutory director
Cindy van Atteveldt - Machielsen (CRO), statutory director

Supervisory Board
Huub Arendse, Chair
Jan van Rutte, Vice-chair
Karin Bergstein
Kees Beuving
Johan Conijn
Marlies van Elst
Leonard Geluk
Femke de Vries

8.3 Other information

Independent auditor's report

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

Report on the financial statements 2021

Our opinion
In our opinion, the financial statements of BNG Bank N.V. ('the Company') give a true and fair view of the financial position of the Company and the Group (the company together with its subsidiaries) as at 31 December 2021, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited
We have audited the accompanying financial statements 2021 of BNG Bank N.V., The Hague. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The financial statements comprise:
- the consolidated and company balance sheet as at 31 December 2021;
- the following statements for 2021: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence
We are independent of BNG Bank N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

We designed our audit procedures with respect to the key audit matters, fraud and going concern, and the matters resulting from that, in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The information in support of our opinion, like our findings and observations related to individual key audit matters, the audit approach on fraud risk and the audit approach on going concern was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Overview and context

BNG Bank N.V. is a credit institution licensed in the Netherlands. Its main activity is providing financing to the Dutch public sector and the semi-public domain. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Executive Committee made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Accounting estimates and judgements' of the financial statements, the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment of loans and receivables and the valuation of financial instruments, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report.

Other areas of focus, that were not considered to be key audit matters, were revenue recognition, management override of controls, hedge accounting, investments in associates, taxation, litigation and other provisions, and accounting for the Bank's participation in Targeted Longer-Term Refinancing Operations ('TLTRO-III'). Though these are areas of focus in our audit, they were not the matters of most significance in the audit of the financial statements of the current period.

The engagement team considered the impact of risks resulting from climate change on the audit. These risks impact the financial statements mostly as one of the potential drivers of credit risk exposures of the Bank. Consequently, we did not identify climate-related risks as a separate key audit matter but took this into account as part of the key audit matter on impairment of loans and receivables.

Given the importance of IT for the Company, we have, to the extent relevant to our audit, paid specific attention to the IT general controls, which comprise the policies and procedures to ensure reliable automated processing of information used for financial reporting purposes, including management of cybersecurity risks. The Company has outsourced a larger part of its IT activities to Centric FSS. The outsourcing has implications for our audit as set out in the section 'The scope of our group audit' of this report.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a banking institution. We therefore included specialists in the areas of IT, tax and valuation of financial instruments and real estate valuation in our team.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: EUR 17.5 million (2020: EUR 16.6 million).

Audit scope
- We conducted audit work on the Company and its subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel.
- In our assessment of the IT landscape, we made use of the ISAE 3402 type 2 report of Centric FSS.

Key audit matters
- Impairment of loans and receivables
- Valuation of financial instruments.

Materiality
The scope of our audit was influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality
EUR 17.5 million (2020: EUR 16.6 million).

Basis for determing materiality
We used our professional judgement to determine overall materiality. As a basis for our judgement we used 5% of profit before tax.

Rationale for benchmark applied
We used profit before tax as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the Group.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.
We agreed with the supervisory board that we would report to them misstatements identified during our audit above EUR 0.9 million (2020: EUR 0.8 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit
BNG Bank N.V. is the parent company of a group with BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V. as its 100% subsidiaries. The financial information of these subsidiaries is included in the consolidated financial statements of BNG Bank N.V. All consolidated positions and transactions in the financial statements were in scope of our audit.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the Group operates.

The Company has outsourced the largest part of its IT activities and payment services to Centric FSS. In our assessment of the IT landscape, we made use of the ISAE 3402 Type 2 report of Centric FSS. In this context, we have been involved in planning the ISAE 3402 work by the service-provider's auditor of Centric FSS, discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 assurance report once it was finalised. Based on these procedures performed, we conclude that in the context of our audit of the financial statements of BNG Bank N.V., we could rely on the ISAE 3402 Type 2 assurance report of Centric FSS.

Following the Covid-19 outbreak, auditors are facing challenges in performing their audits. In response to that, we have considered the impact of the pandemic on our audit approach and in the execution of our audit. Inquiries and meetings with management were done via video conferencing. We obtained viewer rights to those applications most relevant to our audit to enables us to ensure records used as audit evidence were complete, accurate and authentic.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the group financial statements.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the Group and its environment and the components of the system of internal control, including the risk assessment process and the Executive Committee's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated the risk of material misstatement due to fraud to the financial statements. We conducted interviews with both members of the Executive Committee and the Supervisory Board and of others within the Bank, including the internal audit, legal and compliance departments, to obtain an understanding of the Bank's fraud risk assessment and of the processes for identifying and responding to the risks of fraud and the internal controls that the Executive Committee has established to mitigate these risks. As described in the auditing standards, management override of controls and risk of fraud in revenue recognition are presumed risks of fraud. Inherently, management of a company is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We addressed this risk of management override of controls, including evaluating whether there was evidence of bias in management's estimates and judgements that may represent a risk of material misstatement due to fraud (we refer in this respect to the key audit matters 'impairment allowances on loans and advances to customers' and 'valuation of financial instruments').

The audit procedures to respond to the assessed risks include, amongst others, evaluation of the design and the implementation of internal controls that intend to mitigate fraud risks (such as processing and review of journal entries), back testing of prior year's estimates, and procedures on unexpected journal entries with the support of data analytics. Furthermore, we paid attention to significant transactions outside the normal course of business. With regards to the risk of fraud in revenue recognition, based on our risk assessment procedures, we concluded that this risk is related to revenue recognition in areas that are more complex, non-systematic or manual in nature such as fee and commission income and Market value changes of financial instruments. We perform procedures over this risk, including evaluation of the design and implementation of relevant internal controls, and procedures over revenue recognition such as testing a sample of fees and commissions to ensure that the income recorded is accurate and had occurred, and the appropriateness of the valuation methodologies, inputs and assumptions applied in the valuation of financial instruments. We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

Finally, as part of our procedures we had dialogues throughout the year with the Bank's legal team and compliance team. These teams would be first informed and would investigate, amongst others, reported internal integrity, whistleblowing and fraud matters. The engagement team also send, obtained and read internal lawyers' letter and external firm lawyers' letters This did not lead to indications of fraud potentially resulting in material misstatements.

Audit approach to non-compliance with Laws and regulations

The objectives of our audit, in respect to non-compliance with laws and regulations are:
- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

In line with Standard 250 in our audit approach we made a distinction between those laws and regulations which:
- have a direct effect on the determination of material amounts and disclosures in the financial statements. For this category we have obtained audit evidence regarding compliance with the provision of those laws and regulations; and
- does not have a direct effect on the determination of material amounts and disclosures in the financial statement, but where compliance may be fundamental to the operating aspects of the business, to the Company's ability to continue its business or to avoid material penalties. For this category, we performed audit procedures to identify non-compliance with those laws and regulations that may have a material effect on the financial statements. We identified that the risk of non-compliance with laws and regulates relates mainly to the laws and regulations which have an indirect impact on the financial statements, such as the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) (including regulations on Anti-Money Laundering (AML) Client Due Diligence (CDD)), Markets in Financial Instruments Directive II (MiFID II), transaction reporting and General Data Protection Regulation (GDPR).

The primary responsibility for the prevention and detection non-compliance with laws and regulations lies with the Executive Committee with the oversight of the Supervisory Board.

Audit approach on going concern

As disclosed in notes 'Critical accounting principles applied for valuation and the determination of the result', 'Liquidity and funding risk' and 'Capital and solvency' in the financial statements, the Executive Committee performed their assessment of the Group's ability to continue as a going concern for the foreseeable future and has not identified events or conditions that may cast significant doubt on the Group's ability to continue as a going concern (hereafter: going concern risks). Our procedures to evaluate management's going concern assessment include, amongst others:
- Considering whether management's going concern assessment includes all relevant information of which we are aware as a result of our audit.
- Understanding the Bank's medium-term plan including the group's funding plan, specifically for the next 12 months.
- Understanding and evaluating the Group's stress testing of liquidity and regulatory capital requirements, including severity of the stress scenarios that were applied.
- Considering the results of our (other) risk assessment procedures and related activities performed to identify events or conditions that may cast significant doubt on the Group's ability to continue as a going concern; and
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Our procedures did not result in outcomes contrary to management's assumptions and judgments used in the application of the going concern assumption.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

Key audit matter	Our audit work and observations
Impairment of loans and receivables *Refer to the accounting principle 'Impairment of financial assets', note 31 'Net impairment losses on financial assets' and note 37 'Impairment of financial assets and off-balance sheet commitments' in the consolidated financial statements.* The lending to clients classified as loans and advances measured at amortized cost amounts to €90 billion as at 31 December 2021. Most of the loan portfolio relates to loans that are guaranteed by a (central) government body or by Waarborgfonds Sociale Woningbouw (WSW) or Waarborgfonds voor de zorgsector (Wfz) . The credit risk inherent in this category is limited as explained in the risk section in the financial statements. Therefore, the expected credit loss on these loans is considered low. However, the Company also has an unguaranteed loan portfolio amounting to €9 billion that has a higher risk of impairments. The impairment provision for loans and advances as per 31 December 2021 is €237 million and the net impairment charge for loans and advances recognized in 2021 in the income statement amounts to €20 million.***Areas of estimation uncertainty and management judgment:***In determining the expected credit losses for loans and advances, management has to apply judgment in a number of areas. Amongst others this applies to the choices and judgement made in the impairment methodology such as determining what is considered a significant increase in credit risk (SICR), what forward looking macro-economic information is relevant to measure expected credit losses for loans and receivables and managements estimates of probabilities of default and loss given default. In 2021 this included a further degree of estimation uncertainty due to the economic impact of Covid-19 in developing macroeconomics scenarios and the associated weightings given to the range of potential economic outcomes due to (new) Covid waves.***Models and assumptions:*** To calculate expected credit losses for stage 1 and 2, the Executive Committee estimated the probability of default (PD) and the loss given default (LGD) and the exposure at default (EAD). The Company's loan portfolio has a low default character and as a result, there is limited internal historical data to support and back-test the applied PDs and LGDs. Management used its internally developed credit rating models to estimate the PD for exposures for which no external rating is available. Given the low default character of the Company's loan portfolio, the rating models were considered expert models and required a high degree	**Evaluating accounting policy choices:**We evaluated how management applied IFRS 9 to determine whether it has been set up in accordance with the requirements included in the standard. We challenged management on their judgement in key accounting policy choices in the areas of what is considered to be a SICR, application of the low credit risk exemption and default definitions. We considered the policy choices in the application of IFRS 9 to be reasonable.**Assessing individual exposures:**For a sample of loans including loans for which management concluded that no SICR occurred, and loans where an SICR is observed we assessed management's assessment of the level of credit risk, for example by determining that there are no significant arrears in payments, take notice of the latest internal annual creditworthiness assessment, evaluation of latest financial information of counterparties and analysis of public available adverse news, if any. Our procedures did not return any different outcomes with respect to the staging compared to management. For credit-impaired loans, we evaluated the feasibility of the forecasted cash flows for each scenario and assessed management's analysis of the probability allocation of each individual scenario for each credit-impaired loan. In evaluating the forecasted cash flows we evaluated the values that management attributed to expected cash flows and available collateral to assess that this represents a best estimate.**Evaluating internal credit rating models:** With respect to the internal credit rating models used we evaluated the model governance procedures, credit modelling monitoring performed by risk management, reasonableness of the methodology applied in determining the credit ratings. In prior years management engaged with external experts to validate their internal credit rating models. As part of our audit procedures in these years, amongst others, we evaluated the competence, capability and objectivity of these external experts. In 2021 we assessed that management did not make any change to the models. We did not identify any indicators of possible management bias in determining internal credit ratings and corresponding PD's. With respect to the forward looking macro-economic information, we challenged on how the inputs for the various models were determined and to the extent possible compared this to external market data. The "overlay" model, introduced in response to uncertainties following the outbreak of the corona pandemic, was not used anymore in applying macro-economic information in 2021. Furthermore, management reassessed the weightings given to different macroeconomic scenarios. We evaluated the changes and considerations made by management and reviewed the notes to the financial statements on sufficiently clear disclosures on the applied changes. On the LGD used in the calculation of expected credit losses, we challenged management's evaluation of the limited available historic information and the assumptions applied therein.

Continuation of previous page

Key audit matter	Our audit work and observations
of judgement to stratify clients in rating classes. Also, with respect to the LGD used in the calculation of expected credit losses, the Executive Committee has applied significant judgement. The Company applies a basic flat LGD percentage based on the limited available historic default information. For credit-impaired loans, the impairment allowance is based on the weighted average of the net present value of expected future cash flows (including forward looking information and the valuation of underlying collateral) in three different scenarios. Given the complexity and judgement required to calculate the impairments of loans and advances and the impact it might have on results, this area is subject to a higher risk of material misstatement. Therefore, we have identified the impairment of loans and advances as a key audit matter in our audit.	In our audit approach we considered the potential impact of physical and transition climate-related risks on the allowance for expected credit losses. In this context we assessed stress tests and self-assessments performed by management including management's evaluation of the risk for the short and longer term. Finally, we assessed whether the disclosures in the consolidated financial statements on loan allowances and impairments of loans and receivables are adequate and in accordance with IFRS-EU. We found the disclosures to be appropriate in this context.
Valuation of financial instruments *Refer to the accounting policy 'fair value of financial instruments' and the disclosure note 'fair value of financial instruments' in the consolidated financial statements* The Company has financial instruments on its balance sheet that are measured at fair value through the income statement. The portfolio consists of €2,673 million of financial assets classified as level 2 and €187 million as level 3. Financial liabilities measured at fair value through the income statement classified as level 2 are in total €187 million as per 31 December 2021. The derivative portfolio with a fair value of €4,600 millionrecorded as assets and €17,756 million recorded as liabilities contains only level 2 instruments.***Level 2 financial instruments:***For financial instruments classified as level 2 management estimates the fair value by using discounted cash flow models, option pricing models, modelling of double default effects and other valuation techniques. Judgement is required in determining the valuation model and policy. For level 2 instruments, management uses observable inputs to determine forward curves, discounting curves, volatility cubes, inflation curve and spread curves. For derivatives for which the Company has no strong credit support annex in place, a Credit Valuation Adjustment (CVA) is estimated in the calculation of the fair value. Given the complexity in certain valuation models and inputs, the size and diversity of the portfolio, and the impact that the portfolio has on the results, this area is subject to higher	***Testing observable inputs:*** For both level 2 and level 3 financial instruments we compared the observable inputs such as forward curves, discounting curves and volatility cubes to independent sources and external market available data and we assessed whether these inputs are in line with market and industry practise. For the own funding curve used to determine the own credit adjustment for financial liabilities measured at fair value we evaluated the reasonableness of the curve construction by comparing the input to market information available over the full term of the curve.Our procedures demonstrated that management's inputs fall within our range of reasonable outcomes.***Challenging unobservable inputs:***For level 3 instruments, we challenged management on assumptions and methodology applied and validated the internal process performed to determine these inputs. As part of this, we also evaluated to what extent we identified any indicators of possible management bias in estimating fair value. For the financial assets classified as level 3 we challenged how the unobservable inputs (such as monoline guarantees, and credit and liquidity spreads) were estimated and were determined based upon the internal policies. Based upon our procedures we consider the unobservable inputs and judgements made in determining the fair value of level 3 instruments to be reasonable and in-line with market practices.***Independent revaluation:***For level 2 instruments, we performed an independent valuation of a sample of positions, taking into consideration different categories of financial instruments divided in, amongst others, maturity, currency classes, curves and various valuation models applied. We performed these procedures to determine if management's valuation outcomes fell within a reasonable range of

Continuation of previous page

Key audit matter	Our audit work and observations
risk of material misstatement due to error. Therefore, we consider the fair value measurement of level 2 financial instruments a key audit matter. ***Level 3 financial instruments:*** For level 3 financial instruments, management needs to estimate unobservable inputs that are significant to the measurement in the valuation models to determine fair value. The main unobservable inputs relate to recovery rates and correlation factors for bonds with a monoline guarantee and credit and liquidity spreads. Given the level of management estimation involved in determining these unobservable inputs, the long duration of some of those instruments and therefore the impact that these assumptions have on result, this area is subject to higher risk of material misstatement due to error. Therefore, we consider this a key audit matter.	possible outcomes and to validate the design and operating effectiveness of the evaluated models and curves.

Report on the other information included in the annual report

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains all the information regarding the directors' report and the other information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and the understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those procedures performed in our audit of the financial statements.

Executive Committee is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of BNG Bank N.V. on 23 April 2015 by the general meeting, following a recommendation by the supervisory board on 28 November 2014. Our appointment has been renewed annually by shareholders and now represents a total period of uninterrupted engagement of 6 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 32 to the company financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Executive Committee and the Supervisory Board for the financial statements

Executive Committee is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as Executive Committee determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, Executive Committee is responsible for assessing the Company's ability to continue as a going-concern. Based on the financial reporting frameworks mentioned, Executive Committee should prepare the financial statements using the going-concern basis of accounting unless Executive Committee either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so. Executive Committee should disclose in the financial statements any event and circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 18 March 2022
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: J.M. de Jonge RA

Appendix to our auditor's report on the financial statements 2021 of BNG Bank N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Executive Committee.
- Concluding on the appropriateness of Executive Committee's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding

statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report of the independent auditor

To: the General Meeting and Supervisory Board of BNG Bank N.V.

Assurance report on the sustainability information 2021

Our opinion
In our opinion the sustainability information included in the annual report 2021 of BNG Bank N.V. presents, in all material respects, a reliable and adequate view of:
- the policy and business operations with regard to corporate social responsibility; and
- the thereto related events and achievements for the year ended 31 December, 2021 in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as included in the section 7.2 ‘Reporting principles’.

What we have audited
We have audited the sustainability information included in the following sections of the annual report for the year ended 31 December 2021, (hereafter: “the sustainability information”):
- Paragraph 1.1 'Our Road to Impact'
- Paragraph 1.3 'Partnership in client sectors'
- Paragraph 1.4 'Strong position in money and capital markets maintained'
- Paragraph 2.1 'Employees'
- Paragraph 2.2 'CO_2 emissions of business operations'
- Paragraph 3.1 'Financial results'- scope restricted to indicator: 'return on equity score'
- Paragraph 7.1 'Value creation and materiality'
- Paragraph 7.2 'Reporting principles'

This audit is aimed at obtaining a reasonable level of assurance.

The basis for our opinion
We conducted our audit in accordance with Dutch law, including Dutch Standard 3810N ‘Assuranceopdrachten inzake maatschappelijke verslagen’ ('Assurance engagements on corporate social responsibility reports'). Our responsibilities under this standard are further described in the section ‘Our responsibilities for the audit of the sustainability information’ of our report.

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

Independence and quality control
We are independent of BNG Bank N.V. in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten’ (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA – Dutch Code of Ethics).

We apply the ‘Nadere voorschriften kwaliteitssystemen’ (NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria, as disclosed in section 7.2 ‘Reporting principles’ of the annual report.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities, and over time.

Limitations to the scope of our audit

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherent to prospective information, the actual future results are uncertain, and are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information.

In the sustainability information references are made to external sources or websites. The information on these external sources or websites is not part of the sustainability information audited by us. We therefore do not provide assurance on this information.

Our opinion is not modified in respect to these matters.

Responsibilities for the sustainability information and the audit

Responsibilities of the Executive Committee and the Supervisory Board for the sustainability information

The Executive Committee of BNG Bank N.V. is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in section ‘reporting criteria’, including selecting the reporting criteria, the identification of stakeholders and the definition of material matters, determining that the applicable reporting criteria are acceptable in the circumstances, and taking into account applicable law and regulations related to reporting. The choices made by the Executive Committee regarding the scope of the sustainability information and the reporting policy are summarized in sections 7.1 ‘Value creation and materiality’ and 7.2 ‘Reporting principles’ of the annual report. The Executive Committee is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

Furthermore, the Executive Committee is responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the company’s reporting process on the sustainability information.

Our responsibilities for the audit of the sustainability information

Our responsibility is to plan and perform the audit in a manner that allows us to obtain sufficient and appropriate assurance evidence to provide a basis for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements. Our procedures included, amongst other things of the following:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the systems and reporting processes for the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Identifying and assessing the risks if the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to errors or fraud. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Our other audit procedures consisted amongst others of:
  - Interviewing management (and/or relevant staff) at corporate (and business/ division/ cluster/ local) level responsible for the sustainability strategy, policy and results.
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
  - Obtaining assurance evidence that the sustainability information reconciles with underlying records of the company.
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information.
- Reconciling the relevant financial information with the financial statements.
- With regard to the calculated CO2 emissions of the loan portfolio based on the PCAF methodology we have performed audit procedures on the application of the methodology, not on the actual emissions itself. Audit procedures performed include:
  - Assessed the reasonableness of the scope of the measurement and the suitability of the methodology chosen;
  - Interviewed the management expert of BNG Bank N.V. for a key understanding of the calculated CO2 emissions of the loan portfolio;
  - Reviewed the final report of the measurement containing a description of the calculation models, assumptions used and the outcome(s) of the calculated CO2 emissions;
  - Obtaining a key understanding of the calculation model;
  - Tested the relevant assumptions on suitability, reasonableness, completeness and relevance;
  - Reconciling the loan portfolio balance per 31 December 2020 to the underlying financial administration;
  - Performed recalculation and reperformance of the calculations made and inspected underlying documents;
  - Obtaining underlying support for most significant assumptions/estimates.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our audit.
- Evaluating the overall presentation, structure and content of the sustainability information.

- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit, including any significant findings that we identify during our audit.

Amsterdam, 18 March 2022
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: J.M. de Jonge RA

Stipulations of the articles of association concerning profit appropriation

Article 20

20.1 Profits shall be distributed after adoption by the general meeting of shareholders of the annual accounts showing that this is permissible.

20.2 The company may make payments to the shareholders from the profits available for distribution only in so far as its equity capital exceeds the amounts of the paid-up part of the capital plus the reserves which have to be kept by law.

20.3 First of all, if possible, the profits available for distribution shall be used to add an amount of ten per cent (10%) of the profit of the financial year as evidenced by the annual accounts to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.

20.4 The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholdings, in so far as the general meeting of shareholders does not allocate this to reserves.

20.5 The company shall be empowered to make interim distributions, subject to the provisions of Article 105, paragraph 4, of Book 2 of the Civil Code, in the following manner:

a. the general meeting of shareholders requests the Executive Board in writing to submit a proposal for an interim distribution;

b. if the Executive Board has not, within six months after receipt of such a request, submitted a proposal approved by the Supervisory Board to the general meeting of shareholders, the general meeting of shareholders shall be free to resolve to make an interim distribution;

c. if the general meeting of shareholders has rejected the proposal of the Executive Board approved by the Supervisory Board, the general meeting of shareholders shall again request the Executive Board in writing to submit a proposal within eight weeks after receipt of such a request. This proposal by the Executive Board again requires the approval of the Supervisory Board;

d. if the general meeting of shareholders again rejects the proposal as referred to at c of this article 20 paragraph 5, the general meeting of shareholders shall be free to resolve to make an interim distribution.

Objectives as defined in the Articles of Association

Object
Article 2

2.1 The object of the company shall be to conduct the business of banker on behalf of public authorities.

2.2 In the context of its object as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending moneys, granting credits in other ways, providing guarantees, arranging the flow of payments, conducting foreign exchange transactions, acting as adviser and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose object is connected with or conducive to any of the foregoing. The company shall be empowered to perform all acts which may be directly or indirectly conducive to its object.

2.3 The term public authorities as referred to in paragraph 1 means:

a. municipalities and other legal persons in the Netherlands under public law as referred to in Article 1, paragraphs 1 and 2, of Book 2 of the Civil Code;

b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;

c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;

d. legal persons under private law;
- half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to in a, b and c of this paragraph; and/or
- half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to in a, b and c; and/or
- half or more of the income side of whose operating budget is provided or secured directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
- whose operating budget is adopted or approved directly or indirectly by one or more of the bodies referred to in a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies; and/or
- whose obligations towards the company are guaranteed directly or indirectly by one or more of the bodies referred to in a, b and c or will be guaranteed pursuant to a scheme, bye-law or law adopted by one or more of such bodies, for which purpose obligations include non-guaranteed obligations resulting from prefinancing or other financing which, after novation, will create obligations that will be guaranteed by one or more of such bodies pursuant to a scheme, bye-law or law adopted by one or more of such bodies; and/or
- who execute a part of the governmental function pursuant to a scheme, bye-law or law adapted by one or more of the bodies referred to in a, b and c.

BANK

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Colophon

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