Annual Report 2014

BANK

DISCLAIMER

This is an unofficial translation of
the Annual Report BNG Bank 2014
which is provided for
convenience purposes only.
In the event of any ambiguity,
the Dutch text will prevail.

BANK

PROFILE

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

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

Corporate Social Responsibility
is **intrinsic** to
BNG Bank's **core activities**.

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

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

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

SELECTED FINANCIAL DATA

Amounts in millions of euros

	2014	2013	2012	2011	2010
Balance sheet total	153,505	131,183	142,228	136,460	118,533
Loans and advances	90,732	92,074	90,725	90,775	86,851
of which granted to or guaranteed by public authorities	81,036	81,701	79,666	78,548	75,247
of which reclassified from the Financial assets available-for-sale item	1,779	2,259	2,603	3,219	3,724
Equity excluding unrealised revaluations [1]	2,974	2,918	2,718	2,450	2,321
Unrealised revaluations [2]	608	512	34	−553	−62
Equity per share (in euros) [1]	53.38	52.41	48.81	44.00	41.68
Leverage ratio [3]	2.0%	2.3%	2.0%	1.8%	2.0%
Common Equity Tier 1 ratio [3]	24%	24%	22%	20%	20%
Tier 1 ratio [3]	24%	24%	22%	20%	20%
Profit before tax	179	397	460	339	337
Net profit	126	283	332	256	257
Profit per share (in euros)	2.26	5.08	5.96	4.60	4.61
Proposed dividend	32	71	83	64	128
Dividend as a percentage of consolidated net profit	25%	25%	25%	25%	50%
Dividend per share (in euros)	0.57	1.27	1.49	1.15	2.30
Number of staff (in FTEs) at year-end	278	272	279	278	276
of whom employed by subsidiaries	27	28	36	41	45

1 Excluding revaluation reserve and cash flow hedge reserve.
2 This concerns the unrealised revaluations within the equity, being the revaluation reserve and the cash flow hedge reserve. For further details, please refer to the balance sheet section in the Report of the Executive Board under Financial review, and to notes 14 and 32 in the financial statements.
3 The solvency ratios (the leverage, BIS Tier 1 and BIS ratios) were calculated and presented in accordance with the applicable Basel II regulations up to and including 2013. The CRD IV/CRR regulations apply from 1 January 2014 and the solvency ratios (leverage ratio, Common Equity Tier 1 ratio and Tier 1 ratio) have therefore been calculated and presented on the basis of these regulations. The comparative figures have not been adjusted in line with the new regulations.

FOREWORD

In the presence of Her Majesty Queen Máxima, BNG Bank's 100th anniversary celebrations concluded in December 2014 with performances by talented young performers. Founded on 23 December 1914, the bank's mission was to make a sustainable contribution to minimising the cost of social provisions for the public. A mission which, with minor modifications to wording, endures to date. It is a mission in which corporate social responsibility is embedded. A mission that has lost none of its relevance over the past century and one that has enabled BNG Bank to fulfil an important role in Dutch society.

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

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

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

BNG Bank's clients include the municipal and provincial authorities, housing associations and healthcare institutions. These client groups are facing considerable challenges due, in part, to major regulatory changes. Client interests take centre stage at BNG Bank which serves its clients with custom products and services at competitive rates, where possible. As such, BNG Bank plays a supporting role in implementing Dutch government policy. The high rating (8.0) in the customer satisfaction survey held in 2014 serves to confirm customer appreciation of this policy.

Many of BNG Bank's clients were required to implement major regime changes in the past year. On top of that these changes were combined with substantial financial cutback targets for the municipal and provincial authorities. This is taking place at a time in which the financial position of many public authorities already is under pressure. BNG Bank will continue to make every effort to support its clients in overcoming these challenges. The amended Housing Act has major consequences for housing associations. Housing association demand for non-guaranteed financing is expected to rise. BNG Bank also wishes to continue to act as the financier for this client group as far as it can. Over the past few years, the risks in the healthcare sector have been transferred to the banks and health insurers. This sector is only served by a handful of Dutch banks, which have seen credit demand rise strongly in recent years. This has consequently limited banks' capacity to provide financing for healthcare real estate. Here too – where necessary in collaboration with other parties – BNG Bank will endeavour to continue fulfilling its role.

BNG Bank continues to derive its value from its role as an **intermediary** between international investors and Dutch clients.

The number of financial regulations has increased considerably as a result of the crisis and has imposed a heavier administrative burden on the bank. The balance sheet quality and stress test conducted by the European regulators put substantial pressure on the organisation in the past year. After BNG Bank had amply passed these tests, with effect from 4 November 2014 it joined the group of 130 largest European banks that fall under the supervision of the European Central Bank.

As stated in our 2013 Annual Report, the volatility of the annual result has increased considerably as a result of the provisions in IFRS 13 Fair Value Measurement. The volatility is primarily attributable to the inclusion, for accounting reasons, of certain assets and liabilities in portfolios that are valued at fair value. The value adjustments of these items are required to be stated directly in the income statement. The result of the balance sheet quality test referred to earlier was one of the factors which prompted the bank to determine more conservative parameters for the model-based valuation of a small number of structured assets. This has led to the downward adjustment of the valuation of these items, which are measured at fair value. Combined with the consistently low interest rate, this has largely determined the fall in net profit. The relevant assets are structured loans and interest-bearing securities of good credit quality which are held to maturity. The losses therefore relate to unrealised market value adjustments.

BNG Bank continues to **provide** undiminished **support** for clients who are being confronted with major system reforms and challenging financial targets.

The Basel III regulations have now been incorporated in the European CRD IV Directive and will be implemented in phases between now and 2019. An important element for BNG Bank in this regard is the proposed 3% lower limit of the leverage ratio applicable in the European Union. The definitive standard will be determined in early 2016. BNG Bank's policy undertakes to comply with this requirement through retained earnings and a hybrid capital emission by the end of 2017 at the latest.

Sustainability is an important element of BNG Bank's mission and is given shape and substance on both sides of the balance sheet. In 2014 the bank issued its first socially responsible investment bond, the proceeds of which are used solely for the balance-sheet financing of the Dutch municipalities that have achieved the best scores in their category for sustainability and social policy. The loan enabled BNG Bank to raise EUR 500 million on the capital market. In view of the considerable interest among international investors for this innovative form of financing, BNG Bank expects to issue further sustainable bonds in 2015.

Under the broad theme of 'sustainability' BNG Bank has explicitly chosen to focus on energy. The earnings models for making social rented housing more sustainable and generating renewable energy feature a long payback period. A long-term focus is appropriate for both BNG Bank's clients and BNG Bank itself. Through their industry organisations BNG Bank's main client groups contributed to the National Energy Agreement that was signed in 2013. At the local level numerous clients undertook sustainable investment initiatives.

BNG Bank fulfils its mission in the area of sustainability through initiatives including the facilitation of project financing, among other things for sustainable newbuild social housing, healthcare institutions and public buildings as well as sustainable power stations. In the past year BNG Bank acted as the co-financier of a number of projects, including Gemini Wind Farm, one the world's largest offshore wind farms.

BNG Bank proactively develops and stimulates innovative, sustainable earnings models. In recent years the bank has helped enhance the sustainability of swimming pools in Rotterdam through an Energy Services Company (ESCO). At the end of 2014 the bank financed 7,500 solar panels on rented homes belonging to a housing association. The project involves both the installation, management and maintenance and the financing of solar panels, thereby removing the burden from the housing association. In the years ahead BNG Bank will continue to promote these types of financing models to enhance the sustainability of social rented housing.

The Corporate Social Responsibility Report included in this Annual Report has been drawn up in accordance with the GRI 4 core guidelines under the Global Reporting Initiative. In this context we conducted a materiality analysis based on the input received from stakeholders and other external parties to determine the topics to be discussed in the report. For a detailed account, please see the CSR Policy published on bngbank.nl.

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

I wish to thank all of the bank's stakeholders for their contribution in recent years. The year 2014 was marked not only by the gradual quietening down of the financial markets but also by a flood of new regulations for both the bank and its stakeholders. In the long-term, the bank is taking account of a shift from lending to or guaranteed by public authorities, to financing projects in public-private partnerships that fall beyond the scope of government backstops. The bank will adapt its strategy accordingly where necessary. The objectives it has set for the CSR key performance indicators, among other things, remain in line with those of the preceding years. We have confidence in the current year, irrespective of the many challenges we face. ■

On behalf of the Executive Board,

CAREL VAN EYKELENBURG
CHAIRMAN
The Hague, 6 March 2015

1

Organisation

MANAGEMENT[5]

C. (CAREL) VAN EYKELENBURG [b. 1952]
CHAIRMAN OF THE EXECUTIVE BOARD

P.J.E. (PAULINE) BIERINGA [b. 1959]
MANAGING DIRECTOR OF PUBLIC FINANCE

F.C.M. (FRANK) JANSE [b. 1966]
MANAGER MARKETING AND COMMUNICATIONS

R.C.J. (RENE) DE JONG [b. 1968]
MANAGER INTERNAL AUDIT DEPARTMENT

A. (AART) RIETVELD [b. 1965]
COMPANY SECRETARY

J.C. (ANJA) VESTER-VOS [b. 1960]
MANAGER HUMAN RESOURCES

J.J.A. (HANS) LEENAARS [b. 1952]
MEMBER OF THE EXECUTIVE BOARD

O. (OLIVIER) LABE [b. 1969]
MANAGING DIRECTOR OF TREASURY & CAPITAL MARKETS

B.P.M. (BART) VAN DOOREN [b. 1957]
MANAGER CAPITAL MARKETS AND INVESTOR RELATIONS

H.E. (ERWIN) QUAST [b. 1968]
MANAGER LEGAL AND FISCAL AFFAIRS & COMPLIANCE

J.C. (JOHN) REICHARDT [b. 1958]
MEMBER OF THE EXECUTIVE BOARD

R. (REINIER) VAN WOERDEN [b. 1958]
MANAGING DIRECTOR OF PROCESSING

P.J. (PAUL) KORTLEVE [b. 1969]
MANAGER PLANNING AND CONTROL

H.R. (HANS) NOORDAM [b. 1966]
MANAGER RISK CONTROL

R.G. (ROLAND) WIJDOOGEN [b. 1963]
MANAGER CREDIT RISK ASSESSMENT

[4] Effective 1 January 2015.

[5] Each member of the Executive Board is responsible for a number of directorates and (staff) departments. The directors and department heads who report directly to Executive Board members are listed above. An organisation chart has been published on bngbank.nl. The organisational structure of risk management is set out in the Risk section of the Annual Report.

COMPOSITION AND BACKGROUND OF THE EXECUTIVE BOARD[6, 7]

C. (CAREL) VAN EYKELENBURG

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

J.J.A. (HANS) LEENAARS

Mr Leenaars was appointed an Executive Board member on 15 October 2002 for an indefinite period. He will step down on 1 May 2015 following his retirement. In connection with his position at BNG Bank, Mr Leenaars is a Board member of the Centre for Research on Local Government Economics (COELO), and Chairman of the Supervisory Boards of BNG subsidiaries Hypotheekfonds voor Overheidspersoneel BV and BNG Vermogensbeheer BV. He also is Professor of Accounting Information Systems at the University of Amsterdam, Chairman of the Supervisory Board of Chassé Theater BV in Breda and Chairman of the Advisory Council of ILFA BV.

J.C. (JOHN) REICHARDT

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

6 The profile of the Executive Board is published on bngbank.nl. The duties and responsibilities of the Executive Board (members) are described in the Executive Board Rules of Procedure published on bngbank.nl. The desire for diversity on the Executive Board, also in terms of gender and age, is included in this profile and will be expressly emphasised during the recruitment and selection procedure. The Executive Board is composed of three men. At the time of their appointment as members and chairman of the Executive Board, the Supervisory Board deemed that they were the best candidates for these roles. During the year under review there were no new vacancies. As soon as a vacancy arises, a candidate will be sought who matches the Executive Board profile drawn up by the Supervisory Board.

7 In terms of the number of additional positions they may hold, Executive Board members are subject to the limitation regulations set out in the Capital Requirements Regulation and Directive (CRD IV) Implementation Act. In BNG Bank's opinion the Executive Board members comply with the limitation regulations.

COMPOSITION AND BACKGROUND OF THE SUPERVISORY BOARD [8, 9, 10]

H.O.C.R. (ONNO) RUDING [11,12] [b. 1939]
CHAIRMAN
Former Vice-Chairman of the Citicorp/Citibank Executive Board, New York, and former Minister of Finance.
Appointed on 12 May 2004, reappointed on 28 April 2008 and reappointed a second time on 23 April 2012. He will retire from office in 2016.

S.M. (SYBILLA) DEKKER [11,12,13] [b. 1942]
VICE-CHAIR (AND SECRETARY)
Former Minister of Housing, Spatial Planning and the Environment.
Appointed on 24 May 2007, reappointed on 26 April 2011 and eligible for reappointment in 2015. Ms Dekker is a Supervisory Board member of BNG Bank and Royal Haskoning DHV BV.

C.J. (KEES) BEUVING [13] [b. 1951]
Former Executive Board Chairman of Friesland Bank Holding NV.
Appointed on 24 April 2014, eligible for reappointment in 2018. Mr Beuving is a BNG Bank Supervisory Board member and also serves as Chairman of the Supervisory Board of BPF BouwInvest BV.

L.M.M. (LUCAS) BOLSIUS [14] [b. 1958]
Mayor of the Municipality of Amersfoort.
Appointed on 24 April 2014, eligible for reappointment in 2018.

T.J.F.M. (THEO) BOVENS [13] [b. 1959]
King's Commissioner for the Province of Limburg.
Appointed on 23 April 2012, eligible for reappointment in 2016.

W.M. (WIM) VAN DEN GOORBERGH [11,12,14] [b. 1948]
Former Chairman of the Rabobank Nederland Executive Board.
Appointed on 15 May 2003, reappointed on 24 May 2007, reappointed a second time on 26 April. He will retire from office in 2015. Mr Van den Goorbergh is a member of the BNG Bank Supervisory Board and also serves as Chairman of the Supervisory Boards of NIBC Bank NV and DELA.

P.H.M. (PETRI) HOFSTÉ [14] [b. 1961]
Former Executive Board member and Chief Financial and Risk Officer of APG Groep NV.
Appointed on 22 April 2013 and eligible for reappointment in 2017. Ms Hofsté is a Supervisory Board member of BNG Bank as well as KAS Bank NV and Achmea.

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

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

J. (JANTINE) KRIENS[13] [b. 1954]
Chair of the VNG Executive Board.
Appointed on 24 April 2014, eligible for reappointment in 2018.

J.J. (JAN) NOOITGEDAGT[14] [b. 1953]
Former Chief Financial Officer and Executive Board member of AEGON NV.
Appointed on 23 April 2012, eligible for reappointment in 2016. Mr Nooitgedagt is a Supervisory Board member of BNG Bank and also serves as Chairman of the SNS Reaal NV Supervisory Board, Vice-Chairman of the TMG NV* Supervisory Board and as a member of the Robeco Groep NV Supervisory Board.

M. (MARJANNE) SINT[11, 12, 13] [b. 1949]
Former Chair of the Supervisory Board of Isala Clinics in Zwolle.
Appointed on 20 August 20 2012, eligible for reappointment in 2017. Ms Sint is a member of the BNG Bank Supervisory Board and also serves as Chair of the NL Healthcare Supervisory Board, Vice-Chair of the BPF Bouwinvest BV Supervisory Board and as a member of the Friesland Zorgverzekering Supervisory Board.

WORKS COUNCIL

S.D.P. (SELMA) HUIZER [b. 1968]
CHAIR

J.H. (JAAP) BOOM [b. 1951]
SECRETARY

F.B. (FRAN) BOON [b. 1975]

G.J. (GIJS) VAN DUFFELEN [b. 1978]

M.E. (MARJOLEIN) HOFSTEE [b. 1971]

J.P. (JEAN-PIERRE) KRAUS [b. 1970]

R. (RON) MOLINA [b. 1954]

V.G.W.H. (VICTOR) TJIA [b. 1974]

F.W.A. (FELIX) ZWETSLOOT [b. 1971]

[10] Additional positions are only stated if they are managerial or supervisory positions that are relevant under the limitation regulations pursuant to CRD IV. In BNG Bank's opinion the Supervisory Board members comply with these regulations in terms of the number of additional positions. A register containing all the additional positions held by the Supervisory Board members is published on bngbank.nl. Positions and additional positions with publicly listed companies in the Netherlands are shown with an *.

[11] Member of the Selections and Appointments as referred to in Article 16 of the Articles of Association.

[12] Member of the Remuneration Committee as referred to in Article 16 of the Articles of Association.

[13] Member of the Market Strategy Committee as referred to in Article 16 of the Articles of Association.

[14] Member of the Audit & Risk Committee as referred to in Article 16 of the Articles of Association.

Report of the Supervisory Board

2014 – A MEMORABLE YEAR

The year 2014 was marked by a festive note. BNG Bank has undergone many changes in the past 100 years, in terms of both quality and quantity. The Supervisory Board believes that in spite of these changes the bank has essentially remained the same. BNG Bank is the bank of and for public authorities and public sector institutions. BNG Bank appropriately marked its 100th anniversary in 2014, a highlight of which was the publication of the anniversary book entitled 'Kredietwaardigheid verzilverd' ('Capitalising on Creditworthiness').

In 2014 BNG Bank amply passed the balance sheet quality and stress test conducted by the European regulators. By responding to the changing needs of clients for lending and to developments in the banking industry, including the increasing and more stringent regulatory requirements, BNG Bank has been able to maintain its excellent creditworthiness and financial basis, also with a view to the future. In line with its long-term plan BNG Bank pursues a stable policy aimed at offering core clients financial services in both good and bad times, even at moments when other parties withdraw. The Supervisory Board firmly believes that the bank's strategy to adapt to client needs in keeping with its core values – reliable, professional and contemporary – contributes to distinctive service provision.

PROPOSAL TO THE GENERAL MEETING OF SHAREHOLDERS

The Annual Report of N.V. Bank Nederlandse Gemeenten presented in this document includes the financial statements and the report drawn up by the Executive Board for the year 2014. Ernst & Young Accountants LLP have issued an unqualified opinion on the 2014 financial statements. The sections covering Corporate Social Responsibility reporting have been provided with an assurance report from Ernst & Young Accountants LLP. We propose to our shareholders that they adopt the financial statements and discharge the Executive Board members for their management duties and the Supervisory Board members for their supervisory duties, as reflected in the financial statements and the Annual Report. Upon the adoption of the financial statements and the profit appropriation included in it, a dividend of EUR 0.57 per share with a nominal value of

EUR 2.50 will be distributed for the 2014 financial year (2013: EUR 1.27).

COMPOSITION OF THE SUPERVISORY BOARD

To view the Supervisory Board profile, please visit bngbank.nl. The profile of the Supervisory Board remained unchanged in the year under review. The composition of the Supervisory Board is in line with the Supervisory Board profile, and is described in the chapter covering the Organisation, which provides information on each Supervisory Board member relevant to the fulfilment of their Supervisory Board duties.

In accordance with the retirement schedule, in 2014 Messrs H.H. Apotheker and R.J.J.M. Pans retired as members of the Supervisory Board and are not eligible for reappointment. The Supervisory Board wishes to thank Mr Apotheker for his dedicated efforts and expertise, based on the experience he acquired working for municipalities and the central government, which he has demonstrated throughout his 12 years of Supervisory Board membership, serving on both the plenary Board and on the Market Strategy Committee. The Supervisory Board also wishes to thank Mr Pans for his active and constructive contributions to the exchange of views within the Board and within the Remuneration and Selection and Appointments Committees in the past 11 years. He served as Chairman of the Association of Netherlands Municipalities (VNG) Executive Board from 2002 to 2013; his membership of the Supervisory Board underlines the collaboration between BNG Bank and VNG, which in fact also stretches back 100 years.

In connection with the retirement of Messrs Apotheker and Pans, the Supervisory Board drew up individual profiles in line with the Supervisory Board profile. The Supervisory Board furthermore invited applications for an additional vacancy and drew up an individual profile for a new member with banking and financial expertise, although there is no intention to add one more member to the Supervisory Board on a permanent basis. Based on the individual profiles, Mr L.M.M. Bolsius, Ms J. Kriens and Mr C.J. Beuving were nominated and appointed as members of the Supervisory Board of BNG Bank on 24 April 2014 by the General meeting of Shareholders. The Dutch Central Bank assessed the suitability of the relevant individuals and issued a positive opinion on the basis of its assessment. Following their appointment, the new Supervisory Board members completed the induction programme offered by BNG Bank.

In 2014 the shareholders also took note of the individual profile drawn up in connection with the announcement of the retirement by rotation of Ms S.M. Dekker. In conformity with the retirement schedule, she is eligible for reappointment. The shareholders were furthermore notified of the vacancy on the Supervisory Board arising in 2015 in connection with Mr W.M. van den Goorbergh's retirement. In view of the nomination and appointment of Mr Beuving, the Supervisory Board deems it justified that the Van den Goorbergh vacancy should not be filled. This means that the Supervisory Board will again have the required nine members in 2015.

SUPERVISORY BOARD REMUNERATION

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

FINANCIAL SECTOR OATH/AFFIRMATION

In the reporting year the newly appointed Supervisory Board members, Messrs Beuving and Bolsius and Ms Kriens, either took the oath/affirmation for the financial sector on 20 June 2014, and subsequently signed a form containing the written version of the oath/affirmation. The signed forms were added to the individual Supervisory Board members' file.

CONFLICTING INTERESTS

In 2014 no situations occurred involving conflicting interests on the part of directors, Supervisory Board members, shareholders and/or the external auditor of material significance to the company and/or the directors, Supervisory Board members and/or the external auditor.

EXTERNAL AUDITOR

Ernst & Young Accountants LLP (EY) is BNG Bank's external auditor. The external auditor attends Audit & Risk Committee meetings. The 2014 financial statements were likewise discussed in a Board Meeting which was attended by the external auditor. The Supervisory Board periodically discusses the performance of the external auditor. The audit plan for 2014, including the key audit matters, was discussed prior to the audit. The Supervisory Board welcomed the auditor's intention to pay particular attention to the application of multi-curve hedge accounting by BNG Bank, credit management, the fair value measurement of financial instruments, the continuity and reliability of IT and the impact of the Asset Quality Review on the bank's capital ratios. The Supervisory Board discussed the financial statements, the Annual Report, the management letter and risk management policy with the Executive Board and the auditor. During these discussions the auditor reported separately on the specific areas of attention defined. The findings were discussed by the Supervisory Board together with the external auditor and the Executive Board. In the opinion of the Supervisory Board, the external auditor provided all the relevant information to enable the Board to perform its supervisory duties. No irregularities in the financial statements were reported by the auditor in the audit findings. The appointment of the current auditor expires at the end of the 2015 financial year. In 2014 the Audit & Risk

Committee drew up selection criteria for a new auditor based on quality, integrity, fees, partner involvement, industry knowledge and proactivity. Three auditing firms were subsequently selected and invited to submit a proposal, based on which the Audit & Risk Committee issued advice on the party to be selected. In consultation with the Executive Board, the Supervisory Board decided to adopt the advice and to recommend the General Meeting of Shareholders to grant the audit engagement for the financial statements to PricewaterhouseCoopers with effect from the 2016 financial year.

INTERNAL AUDIT DEPARTMENT (IAD)

The chairman of the Audit & Risk Committee periodically talks to the Manager of the Internal Audit Department (IAD). In the past financial year the intensified Dutch Central Bank and ECB supervision and the implications for the bank were discussed. Views were exchanged on the mutual working relationship with the regulator. Further matters discussed included the activities carried out by the IAD, the progress of audits, IAD information and the collaboration with the external auditor. The Supervisory Board regards the credit process as a core bank process which carries the most inherent risks. Agreements were made with the IAD on the annual audit concerning specific aspects of the credit process. The IAD Management Letter is discussed each year by the Supervisory Board and the Executive Board.

WORKS COUNCIL

The Executive Board holds quarterly meetings with the Joint Works Council (GOR). Various Supervisory Board members attended a consultation meeting between the management and the Joint Works Council in the past year. The topics discussed included the development of the bank's result, corporate strategy and CSR, the impact of ECB supervision, the implementation of the General Collective Labour Agreement for the Banking Industry and candidates for the vacant positions on the Supervisory Board. The Supervisory Board finds the meetings with the Joint Works Council constructive and appreciates the good working relationship and open dialogue between the Supervisory Board and the Works Council.

MEETINGS

The Supervisory Board held six meetings in 2014. The meetings were attended by the Executive Board. A private session was held prior to most of these meetings. In addition to the plenary discussion of the topics prepared by the various committees, the following matters were discussed during Supervisory Board meetings: preparation of the Annual General Meeting of Shareholders, the results of the Asset Quality Review and the EBA stress test, progress on the most important projects and the implications of new regulations for BNG Bank's activities. The Supervisory Board also considered the recommendations of the public hearings by the Parliamentary Committee of Inquiry into Housing Associations and the possible implications for the bank. The plenary Board approved the 2013 remuneration report, the long-term plan and strategy, the 2015 annual plan and budget as well as the 2015 risk appetite statement. As regards the variable remuneration granted, the Supervisory Board concluded that it is in line with the remuneration policy established by BNG Bank. Lastly, the Supervisory Board discussed a number of strategic matters during the reporting period, namely BNG Bank's market position and its position in relation to the relevant stakeholders (including competition aspects and types of lending, such as solvency free lending and lending subject to solvency requirements), IT governance, information security and data quality, the bank's risks associated with its capital position and European supervision.

REPORT OF THE AUDIT & RISK COMMITTEE

The Audit & Risk Committee (ARC) held three meetings in the financial year, all of which were attended by the internal and external auditors. The committee prepared the discussion by the plenary Supervisory Board concerning the annual plan and the budget, the Annual Report, the quarterly and interim figures and the management letters of the internal and external auditors, including the Executive Board's response. The main topics discussed were the development of BNG Bank's result and of its solvency and liquidity position, the credit loss provision, the effectiveness of the risk management system, credit, market and operational risk, rating agency reports and their implications for the bank, pricing policy and the options for raising funding. In 2014 the ARC focused specifically on ECB supervision and the implications for the bank. The ARC was kept updated on developments on the financial markets and in the eurozone, the economic impact of those developments and the overall economic outlook. The Committee also prepared the decision-making by the plenary Supervisory Board on BNG Bank's risk appetite statement, the leverage ratio policy, the BNG portfolio credit risk report, and the country and sector analyses report. Furthermore, the Committee discussed the 2013 Compliance Report, the 2013 Incidents Report, the 2015 Compliance Programme, the 2015 IAD Annual Plan, the external auditor's audit plan for auditing BNG Bank's 2014 financial statements and the reports on the tripartite talks between the Dutch Central Bank, the external auditor and BNG Bank. The ARC discussed the preparations for and results of the Asset Quality Review at length (particularly the valuation of structured financial instruments, credit value adjustments and the assessment of individual loans) and the EBA stress test. For the time being BNG Bank assumes that it will need to comply with a 3% lower limit for the leverage ratio with effect from 2018. The ARC endorses the policy agreed on moving towards a higher leverage ratio of 3.25% and has issued the Supervisory Board positive advice on planning the related hybrid capital emission. The Audit & Risk Committee consults with the internal and external auditors once a year as standard without the presence of the Executive Board. No particular points requiring attention emerged from this consultation in 2014.

REPORT OF THE SELECTION AND APPOINTMENTS COMMITTEE

The Committee held six meetings in the reporting year. In 2014 the Committee worked on filling the Apotheker and Pans vacancies and undertook the preparatory work to recruit candidates for the Dekker vacancy. The Committee also drew up a job profile for the recruitment and selection of candidates to fill the vacancy on the Executive Board arising from the departure of Mr Leenaars on 1 May 2015. Following a thorough selection procedure the Committee submitted a proposal to the Supervisory Board to appoint Mr Labe, currently Managing Director of Treasury and Capital Markets, to the Executive Board with effect from the above date. The Committee also took note of the division of responsibilities among the Executive Board members and of the additional positions they hold, and advised the Executive Board on the permanent education programme for the Supervisory and Executive Boards. Lastly, the Committee discussed the continuity of the membership of both Boards. To obtain greater insight into the succession planning of directors and Executive Board members, as well as whether sufficient emphasis is placed on management development, on the advice of the Selection and Appointments Committee the Supervisory Board decided to develop a regular introduction system for the bank's senior management members, which includes giving an opinion on them. The members of the Executive Board believe that it is vital to safeguard expertise and continuity within the Executive Board and endorse the management development programme initiated in 2014.

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee held two meetings in the year under review. Within the framework of the defined remuneration policy, the Remuneration Committee discusses the Executive Board's report concerning the achievement of the variable remuneration performance targets each year and advised the Supervisory Board on the variable remuneration payout percentage. This took place in 2014 for the year 2013. The Committee furthermore adopted the 2013 remuneration report and approved the proposal regarding the 2014 variable remuneration performance targets for the Executive Board. Lastly, the Committee discussed the remuneration specifications of the Executive Board and senior management as well the other remuneration-related provisions arising from the Dutch Banking Code and from the Controlled Remuneration Policy of the Dutch Central Bank and the implementation of the relevant provisions in the remuneration policy for the Executive Board, senior management and other bank employees. For the main aspects of the 2014 remuneration report, please see the section on Remuneration policy.

REPORT OF THE MARKET STRATEGY COMMITTEE

The Market Strategy Committee held one meeting in the reporting year; a second meeting had to be adjourned to 2015. The Committee's remit is to discuss developments relevant to BNG Bank's client groups and the adequacy of the existing and potential services to these groups. A topic discussed during the Committee meeting was that BNG Bank should stimulate the financing of sustainable investments. In 2014 the first financing facilities were arranged for solar panels on housing association homes and BNG Bank issued its first socially responsible investment (SRI) bond. The Committee believes that the bank should provide transparency when it comes to social return, considering the importance of this aspect in procurement procedures. Major changes are taking place in the bank's core client sectors, which equally impact the bank: the decentralisation of central government tasks in the social domain, the Housing Act amendments resulting in the curtailment of the housing associations' sphere of activity, and discussions on income recognition at healthcare institutions. The Market Strategy Committee therefore extensively discussed the proposed commercial policy for 2015.

THE FOLLOWING ISSUES RECEIVED SPECIAL ATTENTION FROM THE SUPERVISORY BOARD IN 2014:

TRANSITION TO ECB SUPERVISION

Compliance with laws and regulations is a recurring area of attention for the Supervisory Board. On various occasions in 2014 the Board discussed BNG Bank's compliance with various laws and regulations laid down by the Dutch Central Bank and other regulators. The change in supervision was among the topics discussed. BNG Bank falls under the direct supervision of the ECB with effect from 4 November 2014. The Asset Quality Review (AQR) and EBA stress test conducted prior to that put substantial pressure on the organisation in the past year. BNG Bank amply passed the balance sheet quality and stress test conducted by the European regulators. In the baseline scenario, the AQR and the stress test both resulted in a capital position amounting to over 2.5 times the required 8% minimum. The worst-case scenario resulted in a risk-weighted solvency ratio of 17.3%, which is over three times the required 5.5% minimum. The Supervisory Board has greeted these results.

SUSTAINABILITY/CORPORATE SOCIAL RESPONSIBILITY (CSR)

In the reporting year, following a preparatory discussion in the Market Strategy Committee, the Supervisory Board welcomed BNG Bank's policy intentions concerning the financing of sustainable investments. The Supervisory Board also approved BNG Bank's CSR Policy as published on bngbank.nl. In the assessment of the bank's CSR Policy, the market shares and return on equity count as important indicators. This reflects the bank's social relevance. The market share objective was achieved in 2014. The objective for generating return was not achieved; the reason is explained in the Report of the Executive Board. Within the context of the Global Reporting Initiative, in 2014 the bank changed over to reporting in accordance with the GRI G4 core approach. The external auditor has issued reasonable assurance of the relevant components.

REMUNERATION POLICY

The General Meeting of Shareholders adopted the remuneration policy for the Executive Board members on 27 April 2009. The policy is published in full on bngbank.nl. The remuneration policy falls within the scope of the central government's remuneration policy for government participations, the Dutch Corporate Governance Code, the Dutch Banking Code and the Regulation for Sound Remuneration Policies Wft 2014.[15]

The fixed component of the remuneration consists of 12 times the monthly salary plus a holiday allowance. The annual variable remuneration for each Executive Board member is maximised at 25% of the fixed remuneration. Each year the Supervisory Board sets quantitative and qualitative targets for the variable remuneration. Each target is awarded a weighting in the total. If the quantitative targets are met, 70% of the maximum variable remuneration is paid.

ACHIEVEMENT OF THE 2014 VARIABLE REMUNERATION TARGETS

Following the Selection and Appointment Committee's advice, the Supervisory Board determined the degree to which the 2014 variable remuneration targets had been met by the Executive Board members and concluded that the corresponding payout percentage would be 57% (2013: 93%). The Supervisory Board regards this result as fair and did not use its discretionary authority to adjust the variable remuneration. In 2014 the Supervisory Board also concluded that there was no reason to consider exercising its authority to reclaim any variable remuneration awarded for previous years.

[15] The Executives' Pay (Standards) Act (WNT) does not apply to BNG Bank. The Act and the ensuing 'Wopt' standard (under the Executives' Pay Financed from Public Funds (Disclosure) Act) apply to public bodies (ministries, provinces, municipalities and water boards) and to semi-public bodies (hospitals, schools, public broadcasting associations and housing associations). BNG Bank is neither a public nor a semi-public body, but a public limited company under Dutch Law, on the understanding that its prospective client group is limited under its Articles of Association to public authorities and public sector institutions.

RESULTS OF THE 2014 REMUNERATION POLICY AND OUTLOOK FOR THE YEARS AHEAD

For an overview of the Executive Board members' remuneration, please refer to note 33 in the consolidated financial statements.

The Executive Board members receive an annual allowance for business expenses of EUR 3,900 each. No shares or options are awarded. The level of the 2014 variable remuneration falls within the pre-approved range of 0 to 25% of the fixed remuneration.

The aim of the Financial Undertakings (Remuneration Policy) Act, which entered into force on 7 February 2015, is to combine all the existing remuneration regulations contained in the Financial Supervision Act, harmonise the terms used and where necessary tighten the existing standards. The Act also provides for the maximisation of variable remuneration at 20% of the annual fixed remuneration. The maximum variable remuneration of the Executive Board was adjusted without compensation with effect from 1 January 2015.

2015 VARIABLE REMUNERATION TARGETS

BNG Bank's mission has been translated into the following strategic objectives: to retain a substantial market share in the Dutch public and semi-public domain and to achieve a reasonable return for its shareholders. The Supervisory Board set the variable remuneration targets for 2015 accordingly. At the beginning of 2016 the Supervisory Board will assess the degree to which these targets have been achieved. The resulting payout percentage ranges between a minimum of 0% and a maximum of 100%. In the event of a payout percentage of 0%, no variable remuneration will be paid. If the payout percentage is 100%, the variable remuneration for 2015 will be 20% of the fixed remuneration. Half of the variable remuneration for 2015 awarded after the assessment will be deposited into a frozen account. Following reassessment, this amount will be paid in January 2019, provided the achievement of the associated targets has not jeopardised BNG Bank's long-term continuity.

For more information on BNG Bank's remuneration policy, please see the 2014 remuneration report published on bngbank.nl

PERFORMANCE OF THE SUPERVISORY BOARD

Following a self-evaluation in 2013, which was performed under external supervision, the Supervisory Board reserved more time in 2014 for plenary consultations behind closed doors as well as with the auditor. The Supervisory Board also evaluated its own performance in 2014 and that of its various committees. To that end an internal survey was completed and the Secretary to the Board held separate talks with each Supervisory Board member. The findings from the survey and the talks were discussed in a plenary meeting of the Supervisory Board. The conclusion drawn was that the individual Supervisory Board members' needs for education will be given more emphasis, in view of the level of expertise the individual members are required to meet. The Supervisory Board also discusses the collaboration with the Executive Board each year and has concluded that it is effective. The allocation of responsibilities among the Executive Board members is balanced and the Board maintains an open culture. The profile of the Executive Board remained unchanged in the year under review. In 2014 the composition and the division of tasks were consistent with the profile. The attendance rate of plenary Supervisory Board meetings and meetings of the Supervisory Board committees recorded in 2014 was 92% (2013: 92%).

PROFESSIONAL DEVELOPMENT

The Supervisory Board members attend a number of permanent education (PE) programme sessions each year. Depending on the topic, both internal and external experts contribute to the PE sessions. In 2014 a component of the PE programme for Supervisory Board members focused on European regulations and developments, and the challenges arising from the new system for European banking supervision. A special component of the 2014 PE programme was the debate in the Dutch Parliament's Lower House between Supervisory Board members and a number of young BNG staffers. The debate centred on the duty of care and communication. The third component of the PE programme related to credit risk. The themes discussed were financing in the healthcare market and credit risk management at BNG Bank. With a few exceptions due to absence, all members of the Supervisory Board completed the permanent education programme.

The Supervisory Board evaluated the effectiveness of the programme and concluded that the 2014 programme served its purpose. However, the Board has decided to place stronger emphasis on individual training needs from 2015. The Board furthermore determined which of the topics in the Dutch Banking code must be addressed in 2015.

The Executive Board members also participated in the Supervisory Board's permanent education programme. One Executive Board member took part in an APG summer course in 2014 and an updating treasury seminar at the Duisenberg School of Finance. A second member of the Executive Board took part in several round-table sessions organised by The Economist and in the annual Central Banker's Conference organised by Nomura. A third member took part in the Public Accountability congress hosted by the National Academy for Finance and Economics, in an Economics and Business course, the Advanced Technical Risk Management course organised by Euromoney as well as an IFRS congress organised by EY. The educational activities undertaken were reported to the Supervisory Board and the evaluation of the activities discussed in the annual assessment reviews with individual Executive Board members held by the Chairman and the Secretary to the Supervisory Board. The Supervisory Board concluded that the Executive Board members meet the criteria set out in the Expertise Policy Rule of the AFM and the Dutch Central Bank.

A WORD OF APPRECIATION

The year 2014 was a memorable year for each and everyone. The Supervisory Board wishes to thank all staff for their dedicated efforts and the results achieved in 2014 and remains fully committed to serving BNG Bank in 2015. ■

On behalf of the Supervisory Board

H.O.C.R. RUDING
CHAIRMAN

S.M. DEKKER
VICE-CHAIR (AND SECRETARY)

The Hague, 6 March 2015

Report of the Executive Board

Introduction

The year in which BNG Bank celebrated its centenary proved to be challenging in many respects. The consistently high market shares in the core client sectors again recorded in the bank's anniversary year reflect the important role the bank fulfils for its clients. BNG Bank posted a net profit of EUR 126 million for 2014. The bank proposes distributing 25% of profit after taxes, representing a dividend of EUR 32 million.

BNG Bank amply passed the balance sheet quality and stress test conducted by the European regulators. The Asset Quality Review (AQR) and the stress test resulted in a capital buffer (CET 1 ratio) of 21.3% in the baseline scenario: over 2.5 times the required 8% minimum. The worst-case scenario resulted in a CET 1 ratio of 17.3%, which is over three times the required 5.5% minimum.

Taking into account the AQR results, the bank critically reviewed two pricing models and the parameters used. While the conclusion drawn was that the models still work well, more conservative values for the parameters were appropriate for the 2014 calculations. These adjustments have resulted in non-recurring unrealised negative market value movements in the bank's result on financial transactions.

In 2014 the bank's net profit declined to EUR 126 million (2013: EUR 283 million). While the strong fall in net profit is partly due to a more structural decrease in the interest result arising mainly from the consistent decline in market interest rates, it can primarily be accounted for by the – partly non-recurring – large negative unrealised market value movements in the result on financial transactions. By far the greater part of the negative market value adjustments relates to a limited number of structured interest-bearing securities, including associated derivatives for the purpose of hedging interest rate, currency and inflation risks. These are securities issued by public or semi-public companies, which in many cases are guaranteed in some form by the British government. Since these securities are held, in principle, to maturity, the bank does not expect that these market value movements will become structural in nature.

BNG Bank is the bank that serves the public interest and offers specialised services at the lowest possible costs. The bank strives to be a reliable partner, to retain its strong market position and to maintain and, where possible, further improve client relationships. The bank's market shares in the various sectors remained high. The bank fulfilled around 65% of total demand for long-term solvency-free credit ('0% risk weighting') from its core client sectors. New long-term lending totalled EUR 9.2 billion in 2014, down EUR 2.7 billion on 2013. Amid the current economic conditions and the many new laws and regulations there has been a reluctance among clients to take on new investments, and consequently client demand has declined. As a result of this anticipated development, the total portfolio of long-term exposures to clients based on principal amounts declined by EUR 0.2 billion to EUR 83.0 billion in 2014.

BNG Bank **amply passed** the balance sheet quality and stress test conducted by the European regulators.

For both refinancing and lending purposes, BNG Bank raised EUR 14.9 billion in long-term funding in 2014 (2013: EUR 15.0 billion). By tailoring supply as flexibly as possible to investor wishes, combined with the bank's excellent creditworthiness, the bank was able to attract the required funding at highly competitive terms. The increasing confidence in the euro and in the European banking sector on the international capital markets generated a broader supply of long-term funds at attractive prices during the year under review. The spreads that investors are willing to receive to invest in BNG Bank's bonds decreased again in 2014. The bank furthermore continued to fulfil its short-term liquidity requirements at attractive rates.

In an effort to improve banking solidity, a number of regulators are rapidly implementing numerous legislative and regulatory proposals. Although there are good reasons for undertaking these efforts, almost all of these proposals will either directly or indirectly increase the burden on banks – sometimes quite significantly so. This will ultimately have negative implications for bank clients, with loans becoming more expensive and less readily available. The new regulations also have far-reaching consequences for BNG Bank. Besides a structural increase in operating expenses and the contribution towards taxes, such as the national levy tax and the European resolution fund, the extent and

BNG Bank strives to be a **reliable partner**, to retain its **strong market position** and to **consolidate client relationships**.

pace at which the proposals are being implemented make considerable demands on a relatively small organisation. Similarly, the new European regulator's uniform approach has a significant impact. The large volumes of data requested within increasingly shorter time frames require adjustments to be made to the bank's processes and systems.

The interest result for 2015 is expected to be lower than 2014. Due to the consistently low market interest rates, interest revenues from the bank's own funds are reflecting a downward trend. Moreover the return of confidence in the international money markets has normalised margins in the short-term loan portfolio. The large purchasing benefits which BNG Bank, as a safe haven, managed to realise in recent crisis years when attracting short-term funding are expected to be a thing of the past. The result on financial transactions will remain sensitive also in the near future to political and economic developments within the European Union. In view of the persisting uncertainties, the bank does not consider it wise to make a statement regarding the expected net profit for 2015. ■

AMSTERDAM: SOLAR PANELS ON RENTED HOUSING

MORE AND MORE MUNICIPALITIES AND HOUSING ASSOCIATIONS ARE LOOKING FOR OPPORTUNITIES TO MAKE SOCIAL HOUSING MORE SUSTAINABLE. BNG BANK OFFERS FINANCIAL AND ADVISORY SERVICES TO HELP THEM DEVELOP THE NECESSARY FINANCING MODELS. IN AMSTERDAM HUURDEZON, A DEVELOPER OF SOLAR ENERGY PROJECTS FOR SOCIAL HOUSING, INSTALLED OVER 7,500 SOLAR PANELS ON THE ROOFS OF RENTED HOMES OWNED BY HOUSING ASSOCIATION EIGEN HAARD. THE PANELS HAVE AN INSTALLED CAPACITY OF NEARLY 2 MEGAWATT-PEAK. PIETER OPPERMANN: ‘IN COLLABORATION WITH HUURDEZON, THE COUNCIL AND EIGEN HAARD WE HAVE BEEN ABLE TO ROLL OUT SOLAR PANELS ON A LARGE SCALE THROUGH AN ENERGY SERVICE COMPANY. THIS IS YET ANOTHER EXAMPLE OF HOW WE HELP OUR CUSTOMERS.’

PIETER OPPERMANN, SPECIALIST IN STRUCTURED FINANCE

Economic developments

Political conflict in Ukraine and in the Middle East as well as falling oil prices created uncertainty on the financial markets in 2014. This is one of the reasons why the economies of Western countries only grew moderately as a result. Economic activity in the emerging markets generally reflected stronger growth.

Inflation in Western countries remained low in 2014. The sharp decline in oil prices kept monetary inflation low. Contrary to expectations, the OPEC opted to maintain the production ceiling even though demand for oil rose less strongly than previously anticipated.

The US economy grew by 2.3% in the year under review. Corporate investments in particular increased over 2013. Employment continued to rise while wage development was moderate, which helped boost consumption by around 2.5%, the same percentage recorded in 2013. Housing construction activity, on the other hand, declined partly due to the higher market interest rate in the second half of 2013. Just as in 2013, exports rose marginally as a result of weak overseas demand. Inflation remained almost stable at 1.6%.

After two successive years of decline, consumption in the eurozone rose in 2014. This was partly attributable to fewer cutbacks by national governments. Even though the number of jobs rose slightly, unemployment remained high. The stagnation of bank lending hampered investments by the business sector and households. Exports benefited moderately from the depreciation of the euro. Due to the developments described above, economic growth registered a moderate 0.8%, after shrinking by 0.4% in 2013. Inflation continued to decline to 0.4%, mainly as result of falling energy prices.

Little change was seen in the government's financial situation in the year under review. The EMU deficit recorded in 2014 was 2.6% of GDP, compared with 2.9% in 2013. The EMU deficit in the eurozone countries thus remained lower than the 3% reference value. Gross government debt rose slightly to around 95% of GDP, which is well above the reference value of 60% of GDP agreed in the Maastricht Treaty.

The differences in economic development within the eurozone decreased in the year under review. Economic reforms and business rationalisation paid off in a number of countries. Economic growth in Ireland and to a lesser extent in Spain rebounded. The conflict between Ukraine and Russia had repercussions for the German economy, which consequently grew less strongly than anticipated earlier in the year. Economic activity in France barely grew partly due to the country's unfavourable competitive position and its failure to implement reforms. The Dutch economy picked up following several years of reforms and spending cuts. Consumption rose in 2014 for the first time since 2011. The housing market recovered somewhat following years of decline. Inflation fell from 2.5% to 1.0%. The sharp decrease in monetary inflation was mainly attributable to the elimination of the upward price effect of the general VAT rate increase in 2013 and to falling energy prices.

In the USA, the Federal Reserve (Fed) decided to gradually reduce its securities purchase programme during the calendar year and ultimately discontinued it in October 2014. However, redemptions on previously purchased loans are reinvested to ensure that the Fed's total securities portfolio remains stable. The Fed funds rate, the Fed-targeted rate at which banks lend to each other, was maintained at 0 to 0.25% in 2014.

By contrast, the ECB resolved to ease monetary policy. The refinancing rate was lowered from 0.25% to 0.05% in two steps and the deposit rate was reduced from 0.0% to -0.2%. The ECB additionally announced that it would increase the balance sheet by around EUR 1,000 billion over the next two years, and to that end launched a covered bonds and asset-backed securities purchasing programme as well as a new bank lending programme, called targeted long-term refinancing operations (TLTRO). The measures taken aim to stimulate lending and to prevent inflation falling too low.

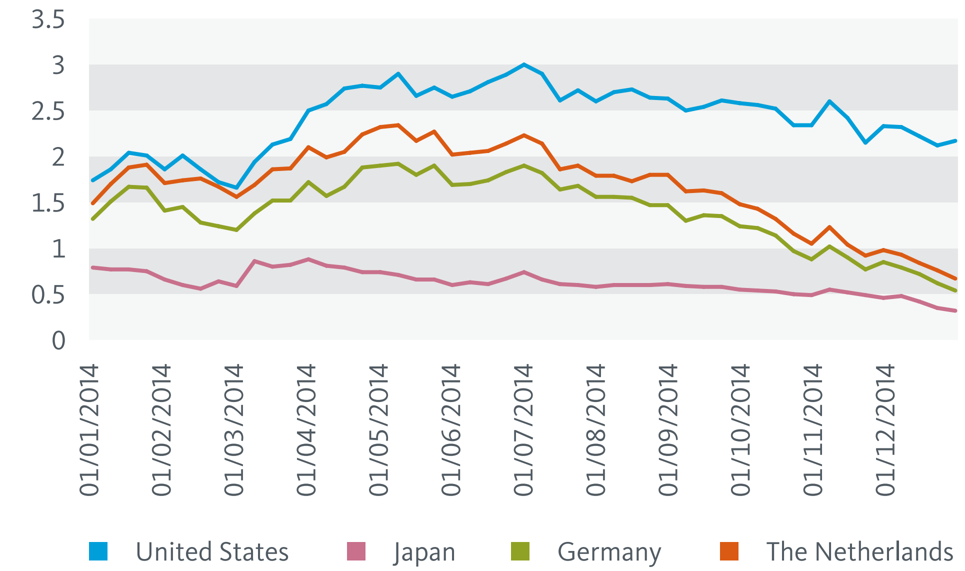
In October the Bank of Japan decided to expand its programme for purchasing government loans and other securities and to extend the term of the government loans to be purchased by three years to seven to ten years. The reason for the measures was that inflation, excluding the temporary price effect of the VAT rate increase in the year under review, had fallen sharply, which had put the inflation target at risk.

Long-term interest rates decreased considerably, especially within the eurozone. In all countries, interest rates hit new **historical lows**.

Long-term market interest rates fell considerably in the reporting year (see the graph), particularly those in the eurozone, where interest rates reached a new all-time low. The return on ten-year German government loans fell from 1.9 to 0.5%. while in the Netherlands the comparable rate declined from 2.2 to 0.7%. The fragile economic conditions and the ensuing lower inflationary expectations primarily account for the fall in eurozone interest rates. The long-term market interest rate in the USA likewise declined, although economic growth was higher in that country. In Japan, where the interest rate level already was extremely low, the market interest rate decreased the least. The developments described above also affected the currency markets. The divergent monetary policies in particular caused the value of the euro to fall against the US dollar, with the yen falling even more sharply.

10-YEAR GOVERNMENT INTEREST RATE

Source: Macrobond (in %)



In the year under review Lithuania was given the green light to enter the eurozone with effect from 1 January 2015, making it the 19th member of the monetary union. The right to vote on monetary policy in the ECB Governing Council will consequently rotate. This means that each eurozone country – including Germany and France, its largest economies – may on a rotational basis not take part in voting on monetary policy.

The ECB completed its financial audit of the major banks in 2014. Some 130 banks were audited, representing 82% of total eurozone banking assets. Seven Dutch banks were audited, including BNG Bank. The three-part audit covered balance sheet risks (liquidity, leverage and funding), asset quality and a stress test to assess whether banks have the ability to withstand shocks.

The audit results were released on 26 October. The capital shortfall among the audited banks totalled EUR 25 billion as at the end of 2013 and was localised to 25 banks, 12 of which had covered their capital shortfall by the end of October 2014. The remaining banks were given nine months at the most to do so. The banks were also found to have sufficient Tier 1 (core capital) at their disposal should the economy contract by 5%. In the ECB's opinion the results were satisfactory. The audit has enlarged transparency in the banking sector and provided insight into the areas requiring improvement at the banks and in the system.

Following on from the audit it was decided to implement a common system of European supervision of the most significant banks, on 4 November 2014. This means that from that date onward the supervision of eurozone banks will be performed in accordance with uniform and clear rules by one institution, the ECB. Supervision of the other banks is subject to the same rules, but remains the primary responsibility of the national central banks. The creation of a common system of financial supervision represents a significant step towards achieving a full-fledged banking union in the eurozone. ■

The financial investigation carried out by the ECB has **increased transparency** in the banking sector.

Strategy

BNG Bank is the bank of and for public authorities and public sector institutions. BNG Bank's specialised financial services help to minimise the cost of social provisions for the public. The bank's core client groups are municipal and provincial authorities, housing associations and healthcare institutions In this regard the bank plays an essential role in the public sector.

BNG Bank's value for society is reflected in the direct and indirect economic effects of its lending activities, which help to make social projects and provisions feasible by providing financing at low rates, usually with extended maturity periods, thereby lowering the cost of public facilities. The bank thus serves the interests of Dutch citizens: they benefit from lower fees for municipal services, lower rents for social housing, and lower charges for healthcare and education – even though the specific impact cannot be quantified on account of the diversity of the financial positions and the autonomy of policy enjoyed by the various institutions.

The bank's mission therefore constitutes the core of BNG Bank's corporate social responsibility practice (CSR). Achievement of the following strategic objectives: retaining substantial market shares in the Dutch public and semi-public domain while generating a reasonable return for shareholders safeguards the continuity of the bank's efforts to generate value for society. The CSR Policy, which forms an integral part of this Annual Report, has been published on bngbank.nl.

Market share is deemed to be an indicator of BNG Bank's level of effectiveness. The bank aims to meet more than half of total long-term credit demand from its core client groups, and to do so in a viable manner. Furthermore the bank, as both an adviser and provider of tailored and reliable financing arrangements, pursues the policy of providing information and guidance to clients on creating a sustainable investment profile. A reasonable return for shareholders equally means that BNG Bank must efficiently execute its mission. The benefits derived from competitive rates and profit accrue to the public authorities since they are BNG Bank's sole shareholders.

Continuity in creating societal value by retaining substantial market shares and generating reasonable returns.

BNG Bank reflects its social engagement by offering room and seeking attention for relevant developments among its clients – an element crucial to accomplishing its mission. The bank offers its opinion in relevant consultation forums with policy developers and interest groups and highlights its viewpoints among the respective members of government. In response to the need among investors for sustainable forms of investment, the bank issued a socially responsible investment bond and is developing policy aimed at encouraging municipalities to make sustainable investments. The bank expects to issue further socially responsible investment bonds in the years ahead.

Maintaining an excellent credit rating and retaining an excellent funding position as well as managing the bank's business as effectively and efficiently as possible are prerequisites in this endeavour.

BNG Bank is regarded as one of the world's safest banks. The triple A ratings awarded by Moody's and Fitch and the AA+ rating awarded by Standard & Poor's serve to endorse the bank's solid risk management and reliable and ethical business practice. The ratings are in line with those of the Dutch State. The bank's excellent creditworthiness and its close ties with the public sector enable it to raise funds worldwide at attractive rates.

Our employees form the foundations of BNG Bank's effective and efficient business practices. The bank operates in a complex and dynamic environment. The need for engaged employees with specialist knowledge has grown considerably in recent years. Our employee development policy places a strong emphasis on increasing relevant knowledge and expertise.

BNG Bank anticipates that a portion of housing association demand for credit will fall **beyond the scope of government backstops**, **as is the case** in the **healthcare sector**.

For the long-term, the bank is taking account of a shift from direct lending to the government authorities to financing projects in which government authorities are involved, such as public-private partnerships, in the area of infrastructure and sustainable energy, for instance. Furthermore the bank anticipates that a portion of housing association demand for credit will fall beyond the scope of government backstops, as is the case in the healthcare sector. The bank will adapt its strategy accordingly where necessary. ■

DILEMMA: FACILITATE OR PREVENT?

Thanks to their solid budgetary and financial framework, lending to or guaranteed by the municipal and provincial authorities is free of risk. Consequently, credit can be provided at low rates. Municipalities and provinces sometimes issue guarantees for the purpose of financing projects to underline their importance for society but are unable or unwilling to execute these projects themselves. By issuing guarantees the municipality or province concerned, however, is exposed to credit risk, which sometimes is difficult for the guarantor to assess for the entire period to maturity.

This poses a dilemma for the bank. On the one hand, the bank should be able to assume that the government has weighed societal desirability against the financial risks during the democratic decision-making process on the guarantee. The provision of financing by the bank at low rates for risk-free credit augments the feasibility of such projects. On the other hand, the bank has the expertise to perhaps more accurately assess the probability and the extent of the risks. When the bank draws the government's attention to the potential risks and the client insists on issuing a guarantee regardless, should the bank respect the democratic decision-making process in this case or protect the guarantor from potential risks and not issue the loan in consideration of its duty of care?

BNG Bank actively undertakes to improve the knowledge level of the municipal and provincial authorities to help them identify the risks associated with granting guarantees and to assess the probability and impact of a possible claim. The decision to act as a guarantor, however, ultimately lies explicitly with the relevant public authority.

Shareholders

FINANCIAL REVIEW

RESULTS

BNG Bank posted a net profit of EUR 126 million for the 2014 financial year, a decline of EUR 157 million relative to 2013. The strong decline in net profit can primarily be accounted for by the large negative unrealised market value movements in the result on financial transactions. These results originate in part in more conservative valuations made in response to the outcome of the balance sheet test performed by the European Central Bank. Furthermore there was a structural decline in the interest result, arising mainly from the consistent decline in market interest rates.

Relative to the previous reporting year, the 2014 interest result decreased by EUR 86 million to EUR 444 million. The decrease can partially be accounted for by a EUR 13 million lower result on client and investor-initiated long-term loan buy-offs and buy-backs. In addition, the interest result was negatively affected by the relatively short maturities of new long-term lending. The lower interest result is mainly attributable however to the consistent decline in the market interest rate. This development not only has a negative impact on the interest income on the bank's own funds, but also results in a lower contribution based on the bank's restrained interest rate position. Furthermore, the return of confidence on the international money markets has put an end to the large funding benefits which BNG Bank, as a safe haven, managed to realise in recent crisis years when attracting – primarily – short-term funding. Finally, the unprecedented interest rate reduction by the ECB in June 2014 – to a negative deposit rate – has placed strong downward pressure on margins in the bank's short-term portfolio.

The result on financial transactions was EUR 187 million negative in the financial year (2013: EUR 5 million negative). The realised portion of the result on financial transactions amounted to EUR 13 million positive, and relates almost entirely to the result on the sale of interest-bearing securities from the balance-sheet item Financial assets available-for-sale. The remaining portion, EUR 200 million negative, relates to unrealised market value movements which are expected to be completely eliminated in the future, either because of the recovery of market conditions or because of the contractually agreed repayments on the transactions.

Of the result on financial transactions, EUR 37 million positive accounts for unrealised market value movements for hedge accounting transactions. This positive contribution is primarily attributable to the sharp fall in long-term interest rates during the year under review. Although the consequences of the crisis have increased the volatility of the bank's result on hedge accounting, the bank's hedge accounting is still extremely effective.

The negative unrealised market value movements in the result on financial transactions are attributable to several factors. First, the bank brought the calculation of the credit risk relating to derivative transactions into line with changed market practice. From 2014, the bank determines the lower limit of the chance of default using more or less comparable market data in the public domain, such as the premium for insuring a claim against the Dutch State. As a result of this adjustment, in combination with the lower market interest rates, the bank posted a negative result of EUR 51 million in the valuation of derivative transactions during the reporting year. The amended valuation of a limited number of purchased inflation-related interest-bearing securities in the balance-sheet item Financial assets at fair value through the income statement is the main cause of the negative unrealised market value movement. The portfolio of very long-term securities of public or semi-public companies, which in many cases are guaranteed in some form by the British government, was purchased during the period just before the current crisis and involves a total nominal principal amount of approximately EUR 670 million as at year-end 2014. Together with the associated swaps used for hedging the interest rate, currency and inflation risks, these transactions in 2014 had a negative impact of EUR 189 million on the result on financial transactions. Despite these parties' stable investment-grade ratings, the liquidity risk spreads rose considerably in 2014. The result relating to the liquidity spread increase accounted for more than EUR 95 million negative of the aforesaid EUR 189 million. Furthermore, more conservative parameters were applied in calculating the value of the additional guarantees relating to a number of these transactions. This adjustment had a negative impact of approximately EUR 58 million on the result. The remaining portion, EUR 36 million, of the negative revaluations of these transactions was caused by the development of the basic spreads in the swaps.

Relative to 2013, the commission result rose by more than EUR 4 million to EUR 29 million. The increase is primarily attributable to the higher contribution of the fees received for loans and facilities subject to solvency requirements. The fees for the services of BNG Vermogensbeheer fell by EUR 2 million to EUR 4 million on account of the implementation of mandatory treasury banking at the end of 2013, which in this case requires that the municipal and provincial authorities hold their liquidity surpluses with the Treasury.

To a limited extent, the non-materialisation of a structural economic recovery also has financial consequences for BNG Bank's high-quality loan portfolio. During the reporting year, two receivables worth approximately EUR 0.5 million in total were settled and charged to the incurred loss provision. Three new individual provisions for outstanding loans resulted in an addition to the incurred loss provision of EUR 10 million to EUR 53 million. In addition, the equity contributed by a joint venture of BNG Gebiedsontwikkeling was written down in full, due to the prolonged uncertainty about the project to be realised by the joint venture.

Relative to 2013, the normal consolidated operating expenses rose by EUR 1 million to nearly EUR 65 million. The increase was primarily attributable to the structural increase in activities within the bank on account of the continuous flow of new laws and regulations.

A necessary staff increase brought about a rise in direct staff costs and the costs of hiring external staff. In addition to the normal operating expenses, over EUR 3 million was recorded in one-off expenses arising from the activities preparing the transition to ECB supervision, such as consultancy fees and regulatory costs passed on by the ECB and the Dutch Central Bank.

THE BALANCE SHEET

The balance sheet total increased by EUR 22.3 billion in 2014 to EUR 153.5 billion. The Loans and advances item fell by EUR 1.4 billion in the reporting year to EUR 90.7 billion, primarily on account of the decrease in short-term exposures. Financial assets available-for-sale rose by EUR 4.1 billion to EUR 13.7 billion, following further expansion of the bank's liquidity portfolio. The increase in the balance sheet total was mainly due to the sharp decline in market interest rates during the reporting period and the weakening of the euro, especially in relation to the US dollar. The effects on the balance sheet are primarily reflected in the increase in the asset item Amounts due from banks (collateral pledged in connection with derivative contracts), Debt securities and Funds entrusted (increased balance sheet value due to the lower euro value and the decline in market interest rates), and Other financial assets and liabilities (owing to the increase in the value of derivative transactions for hedging currency and interest rate risks).

BNG Bank retains its **robust solvency position**. The Common Equity Tier 1 ratio at year-end 2014 was **23.7%**.

BNG Bank's equity rose by just under EUR 0.2 billion to nearly EUR 3.6 billion in the reporting period. The increase is primarily attributable to the 2014 net profit and the increase in the revaluation and cash flow hedge reserves. As a result of the net decrease in the spreads for credit and liquidity risks associated with interest-bearing securities in the item Financial assets available-for-sale, the revaluation reserve increased by EUR 54 million to EUR 234 million.

BNG Bank's robust solvency position is reflected by its high Common Equity Tier 1 ratio, a risk-weighted capital ratio, which remained relatively stable over the course of the year and registered 23.7% as at year-end 2014. The effects of the historically low market interest rates in particular are the main reason for the fall in the leverage ratio to 2.0% as at year-end 2014. The calculation of capital ratios does not include the 2014 net profit. Under the new regulations only audited results may be included at the time of reporting to the regulator. From 2018, the revaluation reserve may no longer be eliminated in calculating the two ratios. In the intervening years, the Dutch Central Bank has opted to phase in the revaluation reserve in the capital ratios calculation. If the revaluation reserve and the 2014 net profit were included in full, the leverage ratio as at year-end 2014 would be 2.3%.

PROPOSED PROFIT APPROPRIATION

For the year 2014, a net profit of EUR 126 million (2013: EUR 283 million) is available for dividend distribution and addition to the reserves. A dividend distribution of 25% (2013: 25%) of profit after taxes, representing a dividend of EUR 32 million (2013: EUR 71 million), has been proposed to the shareholders. The remainder will be added to the reserves. The dividend amounts to EUR 0.57 (2013: EUR 1.27) per share with a nominal value of EUR 2.50.

CORPORATE GOVERNANCE

DUTCH CORPORATE GOVERNANCE CODE

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

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

The bank **highly values**
direct contact
with **shareholders**.

DUTCH BANKING CODE

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

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

REGULATION ON A CONTROLLED REMUNERATION POLICY

The Regulation on a Controlled Remuneration Policy relates to how financial enterprises adopt and apply remuneration policy to employees whose duties have a material influence on the risk profile of the financial enterprise. BNG Bank has implemented the regulation in its remuneration policy in a manner and to an extent that reflects the bank's size and internal organisation, as well as the nature, range and complexity of its activities. The bank provides an account of its implementation of these principles on bngbank.nl. In 2014 the bank revised its policy to reflect the amendments to the Regulation on a controlled remuneration policy under the Financial Supervision Act 2014.

IN CONTROL STATEMENT

Due attention is paid to BNG Bank's internal risk management and control systems. These systems are structured in accordance with the regulations arising from the international guidelines issued by the Basel Committee on Banking Supervision (BCBS), which BNG Bank has set out in an internal Risk Appetite Framework. The framework applies to all the risks identified by the bank. As part of the framework, the Risk Appetite Statement describes the risks which the bank desires to accept in order to achieve its objectives.

The various risks attendant on the bank's activities are discussed each year in BNG Bank's Annual Report. In their 'In control' statements the department heads and managing directors focus on risk management in relation to the bank's risk appetite. They also set out in the 2015 annual plans how they aim to fulfil their responsibility in meeting the bank's risk appetite. The overall framework is closely linked to the bank's capital management policy, which is periodically reviewed and discussed with the regulator.

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

The bank's risk management and control systems performed effectively in the year under review, and provide a reasonable degree of assurance that the financial reports contain no inaccuracies of material significance. These systems are in themselves, of course, incapable of providing absolute certainty about the achievement of the company's objectives and the prevention of all errors, instances of fraud and violations of laws and regulations. There are no indications that the risk management and control systems will not function effectively in 2015.

ADOPTION OF SHAREHOLDER SUSTAINABILITY OBJECTIVES

BNG Bank desires to adopt and support the sustainability objectives of its stakeholders. The manner in which the bank aims to add value is set out in the CSR Policy which forms an integral part of the Annual Report and financial statements which is discussed during the Annual General Meeting of Shareholders. Under its CSR Policy, each year the bank formulates a number of objectives linked to CSR Policy themes. The 2014 objectives, achievement of the objectives in the year under review and the 2015 objectives are set out in the table below according to the respective theme.

2014 OBJECTIVES	ACHIEVEMENT OF 2014 OBJECTIVES	2015 OBJECTIVES
A SAFE BANK		
Substantial market shares: profitability in more than 50% of total long-term demand for solvency-free credit ('0 risk rating') from the municipal and provincial authorities, housing associations and healthcare institutions.	Achieved. See the Clients section.	The objective for 2015 and subsequent years is the same as that for 2014.
Return on equity: 8%.	Not achieved: 4.3%.	Return on equity: 6.5%.
Integrated annual report in accordance with the GRI 4 guidelines.	Achieved. Integrated 2014 Annual Report based on the GRI 4 core approach.	Integrated 2014 Annual Report based on the comprehensive approach.
RESPONSIBLE GROWTH		
Portfolio of long-term loans to municipal and provincial authorities, housing associations, healthcare and educational institutions: > 85% of BNG Bank's long-term loan portfolio.	Achieved. See the Clients section.	At least 90% of the long-term loan portfolio in the balance sheet is solvency-free credit.
Loans to finance the roll-out of solar panels on housing association homes and making accommodation more sustainable.	Achieved. See the Clients section.	Ongoing roll-out of solar panels.
N/A	N/A	Issue at least one SRI bond for sustainable investment purposes.
2014 customer satisfaction survey: score above the industry average.	Achieved. See the Clients section.	Follow up on/monitor improvement points arising from the survey.
		The next survey will take place in 2016.

2014 OBJECTIVES	ACHIEVEMENT OF 2014 OBJECTIVES	2015 OBJECTIVES
ENGAGED EMPLOYEES		
Organise internal meetings to share knowledge.	Achieved. See the Employees section in the Annual Report.	Organise meetings on BNG Bank's business model.
Optimum deployment of quality staff and staffing levels.	Achieved. See the Employees section in the Annual Report.	Offer greater insight into development opportunities and employee motivation.
Identify opportunities for sharing knowledge internally/internal work placements together with managers.	Achieved. This was also implemented in practice in the form of internal training.	
Promote collaboration among managers.	Achieved. Included as an objective in the management programme that commenced in 2014 and will continue in 2015.	
Devote attention to employee adaptability and flexibility on a more regular basis.	Partially achieved. Focus was initially placed on employee health from the perspective of sustainable employability. See the Employees section.	Focus on employee vitality by using preventive measures as a follow-up to the health examination.
N/A	N/A	Evaluate and revise the compensation and benefits system.
Employee satisfaction.	No objective.	Conduct employee satisfaction survey. Objective: to achieve a result comparable to that of the financial sector benchmark.

2014 OBJECTIVES	ACHIEVEMENT OF 2014 OBJECTIVES	2015 OBJECTIVES
SOCIAL ENGAGEMENT		
Support high-quality art and cultural projects in the Netherlands. Distribution across various disciplines and a geographic spread is the goal.	Support projects in various disciplines across the Netherlands. BNG Heritage Award presentation ceremony. Organise the 'Eternal Youth' project as part of BNG Bank's centenary and the 50th Anniversary of BNG Cultuurfonds.	Objective unchanged. Objective unchanged.
Alongside a music award, initiate awards for young talent in the visual arts and dance categories.	Launch the Visual Arts Award (in association with Dutch newspaper Volkskrant). Launch the Dance Award (in association with Korzo Theater). Instead of the Music Award we have entered into a long-term collaboration with the National Youth Orchestra, which will stage three new productions for young talent.	Maintain current awards.
ENVIRONMENTALLY CONSCIOUS OPERATIONS		
CO_2 emissions at the same level as in 2013 or lower.	Achieved. See GRI index.	CO_2 emissions in 2015 at the same level as in 2014 or lower.

2014 OBJECTIVES	ACHIEVEMENT OF 2014 OBJECTIVES	2015 OBJECTIVES
Reduce paper consumption relative to 2013.	Not achieved. See GRI index. In 2014, paper procured amounted to 21,002 kg (2013: 13,196 kg). The increase partly relates to the additional 100th anniversary publications and correspondence.	Reduce paper consumption in 2015 relative to 2014.
Increase the level of sustainable procurement.	Not achieved. Examine the option of using 'green cartridges' when looking into replacing printers and photocopiers.	Increase the level of sustainable procurement. Discuss promoting sustainable services with the main sourcing parties.

The bank achieved the majority of the objectives. By achieving its strategic market share objective, the bank has demonstrated that it was able to provide financing at competitive rates again in 2014. Given the current market conditions, we have established that the growth of equity derived from retained earnings will not be entirely sufficient to ensure that the bank meets the leverage ratio objective. BNG Bank has therefore taken the decision to place hybrid debt instruments within the scope of the municipal and provincial authorities, which the bank may designate as risk-bearing capital. Because the interest payable by the bank remains within the scope of the government, the achievement of the bank's key objective remains intact: to keep the costs of social provisions for citizens low.

BNG Bank's status as a safe bank remained undisputed in 2014. In the list of the World's Safest Banks 2014, BNG Bank ranks fifth, dropping three places from the previous year. Its lower ranking relates to the downgrade S&P implemented in 2013 in line with that of the Dutch State. In the Dutch Transparency Benchmark Ladder 2014, BNG Bank ranks tenth out of 243 participants, which serves to illustrate the transparency on the bank's state of affairs. Indeed, BNG Bank was the highest scoring financial institution.

Because the Dutch State holds shares in BNG Bank, the bank is required to comply with the Central Government Participations Policy. The Dutch State assesses the performance of state-owned companies for their contribution to safeguarding the public interest and retaining financial value. It also reviews their good corporate governance practices. In 2014 meetings took place between the Ministry of Finance, representing the Dutch State, and the bank concerning the bank's performance in these areas. Other shareholders were also given the opportunity to share their views with the bank on the above.

The Ministry of Finance believes that these meetings make an essential contribution to safeguarding the public interest. Risk management and strategy are fixed items on the agenda. Remuneration policy is a further topic discussed in this context. Under the Financial Undertakings (Remuneration Policy) Act variable remuneration is maximised at 20% of the annual fixed remuneration. The maximum variable remuneration of the Executive Board was adjusted without compensation with effect from 1 January 2015. Consultations were also held with the Ministry of Finance concerning a return criterion for public sector banks, taking into consideration the prolonged period of extremely low interest rates.

BNG Bank was the **highest scoring financial institution** in the **Transparency Benchmark**.

In response to the financial crisis the European Commission has taken a number of measures aimed at preventing the public sector from having to pay the bill for any problems occurring in the financial sector in the future. Among the measures taken is the Bank and Recovery Resolution Directive which implies that the costs of an imminent bankruptcy of troubled banks will be borne by shareholders and creditors. There is some legal uncertainty in the market on whether the Dutch State may act as an ordinary shareholder where public sector banks are concerned, or whether conditions apply to any state aid. This potential restriction is an element considered by rating agencies when determining bank ratings. BNG Bank holds the view that the possibility of the government acting as a shareholder in accordance with the law will not be materially affected. ■

SOESTERBERG: PROCUREMENT THROUGH PUBLIC-PRIVATE PARTNERSHIP

THE DELFT ARMY MUSEUM AND THE MILITARY AVIATION MUSEUM IN SOESTERBERG HAVE MERGED INTO THE NEW NATIONAL MILITARY MUSEUM, LOCATED IN THE NORTHERN SECTION OF THE FORMER SOESTERBERG AIR BASE. THROUGH THE NEW MUSEUM THE MINISTRY OF DEFENCE AIMS TO COMMUNICATE THE SIGNIFICANCE OF THE ARMED FORCES TODAY, IN THE PAST AND IN THE FUTURE TO THE PUBLIC AT LARGE. AS PART OF A CONSORTIUM, BNG BANK SIGNED A DBFMO FINANCING AGREEMENT WORTH APPROXIMATELY EUR 82 MILLION. DBFMO IS A TYPE OF PUBLIC-PRIVATE PARTNERSHIP AND A FAR-REACHING FORM OF INTEGRATED PROCUREMENT.

FERRY PANKRAS, SPECIALIST IN STRUCTURED FINANCE

Clients

PUBLIC SECTOR

The housing market showed the first signs of cautious recovery in 2014 as evidenced by developments in the construction of new-build homes and the number of building permits granted. The fall in average house prices also came to a halt. However, considerable regional differences continue to exist.

In 2013 municipalities were again forced to write down EUR 0.25 billion on land development. During the 2010-2013 period, municipalities wrote down EUR 2.85 billion on their land holdings. The reserve position of municipalities declined further which, although lower than in the preceding years, does increase vulnerability to other risks, such as the consequences of three decentralisation programmes.

In the social domain, three major decentralisation projects are being implemented in the areas of healthcare, youth and work. With effect from 1 January 2015 responsibility for youth care, job search assistance and long-term and elderly care has been transferred to the municipalities. They were already responsible for a number of these tasks, and will now take over further tasks from the central government and provinces. The adoption by the Dutch Parliament's Upper House of the Long-Term Care Act (Wlz) on 2 December 2014 has resulted, with effect from 1 January 2015, in a coherent and comprehensive new statutory framework – also including the Youth Act, the Social Support Act 2015 (Wmo) and the amended Healthcare Insurance Act (Zvw) – encompassing the reform of long-term care. In 2014 municipalities had to do everything in their power to ensure the continuity of support and care for their citizens. In early December 2014, the State Secretary for Public Health, Welfare and Sport reported that all municipalities were ready to make the transition.

In 2015, municipalities will receive EUR 10.3 billion to carry out these new tasks. These funds will be added to the Municipalities Fund as an integration payment. The amount reflects significant budget cuts. Municipal authorities face a financial risk in the event the integration payment proves insufficient to meet the demand for care. The Dutch government is examining the possibility of granting municipalities more scope

Three major decentralisation projects have increased the local authorities' financial dependence on the state. As a result, their financial risk is growing.

for charging municipal taxes. As a result of the decentralisation programmes the municipalities have become more dependent on the central government for their income, increasing the likelihood of conflicts arising on this issue.

Municipalities bear responsibility for making a contribution to a sustainable society. As a consequence municipalities are imposing increasingly stringent criteria on the procurement of goods and services. Working in association with the central government and the municipal and regional authorities since 2001, BNG Bank has gained a great deal of experience of public-private partnerships (PPS). In the current market situation the municipal and regional authorities are faced with the challenge of maintaining the standard of provisions with limited funding. The expectation is that they will more often use PPS as a tool for their investments in facilities, such as town halls, schools, sewerage systems and roads, in the future. BNG Bank works in association with professional market parties to seek good quality solutions and financing options for PPS projects. Through information provision and knowledge sharing PPS has good potential and will enable both savings and investments to be made.

PUBLIC HOUSING

Housing associations were in the political spotlights in 2014. Public hearings by the Parliamentary Committee of Inquiry into Housing Associations took place throughout most of June and July. The Committee presented its final report at the end of October and put forward a number of recommendations to change the Dutch housing association regime. These recommendations were considered during the parliamentary debate on the proposed Bill for the amended Housing Act.

The amended Housing Act defines the legal framework within which the housing associations must operate in areas such as authorised activities, governance, supervision and third-party collaboration. The proposed Bill has brought the amended Housing Act previously adopted by the Dutch Parliament's Lower House into conformity with the coalition agreement. This also implies the further curtailment of authorised activities and the parameters within which these activities must

> More assets of housing associations will be characterised as **non-SGEI**, potentially resulting in a substantial increase in **non-guaranteed lending**.

be carried out. Ultimately – again in response to the parliamentary inquiry – various amendments were made to the minister's initial proposals during the parliamentary debate. The entry into force of the Act, scheduled for 1 July 2015, will also put an end to a period of uncertainty for the sector.

Both the amended Housing Act and the Parliamentary Committee of Inquiry adhere to the essence of the housing association regime, with its financing and guarantee system based on solidarity. BNG Bank subscribes to this approach. The financing and guarantee system has proven to be crucially important for financing the necessary public housing investments, particularly in vulnerable areas in the Netherlands. As the system is largely based on 'collectivity and solidarity', further disciplining, which the amended Housing Act should provide for, is vital for retaining sufficient support for the regime.

An important element of the amended Housing Act is the mandatory segregation of Services of General Economic Interest (SGEI) from non-SGEI activities. Only SGEI activities (activities in the social rented housing sector and public real estate) may be performed with state aid. Guarantees issued by the Social Housing Guarantee Fund (WSW) are the principal form of state aid. Many non-SGEI activities are currently financed under a WSW guarantee. Pursuant to the Act, existing non-SGEI activities will have to be refinanced in due course without this guarantee. At present, 6.5% of housing associations' assets can be classified as non-SGEI. As the Act offers housing associations the option of designating more property as non-SGEI, the non-guaranteed demand for credit could rise considerably in the future.

BNG Bank will continue to play a role in non-guaranteed housing association lending, using the possibilities at its disposal. In 2014 BNG Bank held presentations at various meetings to inform the sector and its clients about the possible consequences of the new legislation on financing.

In previous years, the liquidity position of housing associations was negatively affected by the situation on the housing market and by the housing association and redevelopment levies. In anticipation of this development, housing associations adapted rental policy, reduced their operating expenses and adjusted investment levels. This policy has led to the recovery of the housing associations' capital and liquidity position, as also established by the external financial regulator at the end of 2014. From a historical perspective the current housing associations' investment level is low, and in 2014 it was adjusted further downward by the housing associations against earlier forecasts.

In 2014 the WSW implemented a new operating procedure and risk assessment model. In addition to conducting a risk assessment of individual housing associations, explicit focus is placed on risk limitation and risk appetite within the total regime. The guarantee caps which the WSW imposed on individual housing associations in 2014 show that the WSW is encouraging many associations to phase out their guaranteed loan portfolios. The phase-out has led to lower credit demand from the housing association sector.

CARE

The government has made substantial changes to the management of the healthcare services in the Netherlands. Various healthcare system reforms have been implemented to keep care affordable, accessible and of high quality. Almost all of the government measures were implemented in 2014 in both hospital care (cure) and long-term care (care). In 2014 the inherent financial risks clearly emerged as a result of the cumulative implementation of measures in a relatively short space of time.

The government has transferred the majority of the risks to the parties in the field. A government safety net will be available only if the continuity of crucial care comes under threat. Under the new healthcare system the parties in the field are seeking to implement the measures based on their individual responsibilities and interests.

The credit risks consequently became manifest in 2014. For the second time in 18 months a hospital filed for bankruptcy while several other hospitals have entered the danger zone. In terms of care services several institutions likewise are vulnerable, particularly those with premises at relatively few locations, specialised in relatively low-intensity care. Under the new healthcare system the sustainability of bank financing has come under pressure. This is due, firstly, to the lower credit ratings and, secondly, to the fact that lending by only a small number of Dutch banks plays a significant role.

In fulfilling their role in 2014 the health insurers developed regional plans relating to the concentration of emergency care. These plans were postponed following strong criticism from the Netherlands Authority for Consumers and Markets (ACM). In accordance with the agreements made in the July 2013 Curative Care

BNG Bank **has concerns** about the availability of operating capital for healthcare institutions.

Agreement, when contracting healthcare for the year 2015 the health insurers exerted significant pressure on the curtailment of their growth potential. They have also not been able to apply an adequate level of quality criteria in the procurement of healthcare. Pressure is therefore primarily being put on rates and turnover ceilings. The health insurers acknowledge that long-term contracts offer financiers reassurance. However, such contracts restrict their flexibility in procuring care from other sources should the quality of the care provided prove to be poor.

On 16 December 2014 the Dutch Parliament's Upper House rejected the proposed Amendment to the Healthcare Insurance Act. According to the proposal, health insurers would no longer have an obligation to reimburse the provision of non-contracted care. The aim was to strengthen the health insurers' position with a view to procuring healthcare with a more competitive price/quality ratio.

Health insurers and banks provide operating capital to healthcare institutions. Banks finance debtor balances, whereas health insurers provide advance financing for work in hand. In 2014 the deadlock between the banks and insurers relating to pledging security/collateral could not be resolved, despite intensive consultations. When contracting healthcare, health insurers usually include in their general terms and conditions a prohibition on pledging for advanced financing, preventing banks from pledging security/collateral for debtor finance. BNG Bank has concerns about the availability of operating capital for healthcare institutions.

In an audit alert sent in March 2014 auditors warned of hospitals having too many uncertainties in their annual figures, as a result of which they were unable to issue an unqualified auditor's report. They later issued a similar alert for curative mental healthcare institutions due to the lack of clarity on claim regulations. Hospitals, health insurers and the Dutch Healthcare Authority were found to interpret the regulations differently. Furthermore the rules are frequently amended retrospectively. The hospitals reached agreement on a recovery plan with the parties directly involved. The hospitals were given until 15 December 2014 to file their 2013 financial statements. The banks issued waivers, where applicable, to hospitals that were unable to submit financial statements accompanied by an unqualified auditor's report on or prior to 1 June 2014 in accordance with the agreement. Hospitals checked their 2012 and 2013 claims, whereby the surplus amount claimed, 1.21% of total macro turnover, was settled with the Health Insurers Fund. This means that the hospitals now have a clean slate to work from.

On the whole, given the developments described above, the financial outlook for the healthcare sector remains uncertain. In 2012 and 2013 the government made available transition funds to absorb the potentially adverse consequences of the introduction of treatment-related pricing. Furthermore, the volume of care has been falling since 2012, whereas it had always shown strong growth in the preceding years. A large number of institutions are already adapting to the new developments. In 2014 a further improvement was seen in operational efficiency. The disciplining effect of health insurers and banks played an important role in this regard.

On 1 July 2014 the Dutch Parliament's Lower House adopted a bill which allows specialist medical care providers to distribute profit subject to certain conditions. During the debate in the Upper House further examination was found to be necessary. The bill has therefore been provisionally deferred by the Upper House.

In 2014 hospitals prepared for the implications of implementing the full charges for specialist medical care effective from 1 January 2015. From that date onward, medical specialists' fees will no longer be funded separately but will be included in the price of the healthcare services which the hospital charges the health insurer. This has consequences for the position of independent medical specialists and for hospital governance. The specialists have opted mainly for tax reasons to join forces by establishing a medical specialists company. A key concern in the credit assessment is the effect of this development on the governability of hospitals.

In 2014 significant progress was made in the legislative process concerning the reform of the Exceptional Medical Expenses (Compensation) Act (AWBZ). The Act will be scaled back to a new national provision for the handicapped and the elderly, and limited to higher-intensity care cases. The remaining demand for care will be fulfilled by the municipalities (through the new Social Support Act 2015) and the health insurers.

The **expansion** of the **international energy infrastructure** of Dutch network companies is becoming increasingly important.

OTHER CLIENT SECTORS

In addition to the municipal and provincial authorities and healthcare institutions, BNG Bank also provides funding to educational institutions and private companies, in which the public authorities directly or indirectly hold, or fully or partially guarantee, a majority share in the company's capital. These include energy network, water supply and waste treatment companies as well as initiatives in the telecom sector.

EDUCATION

In 2014 the National Education Agreement, as concluded between the central government, the various sector organisations and the trade unions at the end of 2013, was elaborated for various education sectors. This Agreement, as well as the 2013 Autumn Agreement between the coalition and a number of opposition parties, stipulates that additional funds will be made available to improve the quality of education. These funds are primarily intended for the purpose of investing in teachers and in adequate education. The institutions, however, are facing budget cuts in the short term, which may force teachers to leave the sector. In 2014 additional funds were therefore applied to keep teachers, and young teachers in particular, in work.

ENERGY NETWORK COMPANIES

With the entry into force in 2009 of the Energy Companies Unbundling Act (Independent Grid Management Act), Dutch energy companies were required to split up their production and supply companies into separate legal and economic entities. The two energy companies that have not yet been split up have to date successfully opposed the split-up, as a result of which the Act has been deferred for the time being. The advocate-general has advised the Supreme Court of the Netherlands to re-institute earlier legal proceedings on the forced split-up. One aspect that must be examined is whether the mandatory split-up contravenes European regulations that protect the right of ownership. The Supreme Court is expected to render a decision in early 2015. Under the Unbundling Act the energy network companies are to remain fully state-owned. These companies are also required to comply with strict rules concerning financial ratios and permissible returns.

In the light of the developments on the international energy market, the expansion of the international energy infrastructure of Dutch network companies is becoming increasingly important – for example, to facilitate the transition to sustainable forms of (decentralised) energy generation and to compensate undercapacity in one country with existing capacity in other countries. The EU is therefore pursuing a more coordinated policy, which also covers the modernisation and expansion of the European energy infrastructure.

WATER SUPPLY COMPANIES

Drinking water companies are also required to comply with strict rules on financial ratios and results. Water supply companies make detailed technical condition analyses of the water supply network. Major replacement investments are anticipated to be required in the network over the next decade. In the Administrative Agreement on Water the partners in the water supply chain (drinking water supply companies, municipalities and water boards) have agreed to collaborate more to achieve efficiency and quality gains. The water supply companies are currently working on substantial savings programmes for the years ahead. The Water Supply Chain Review Committee, which monitored progress on the Administrative Agreement in 2014, anticipates that the drinking water companies will achieve the cost savings proposed in the Agreement.

TELECOM SECTOR

In an age in which countless Internet services are being developed, citizens and companies in rural areas in the Netherlands do not always have access to an affordable and adequate communication infrastructure. Building the infrastructure in these areas under the pricing structure of the established market parties is unprofitable, and therefore cannot be realised without state aid. Various citizen and government initiatives have been undertaken at local level aimed at equipping these areas with a high-quality network.

ENVIRONMENTAL COMPANIES

Around 80% of all waste produced is recycled. The waste flow rate is reasonably constant. However, a shift in origin is apparent. The volume of waste produced in the Netherlands is falling while an increasing portion of waste processed in this country is imported, for which the overcapacity of the domestic waste incineration plants is utilised. Waste tax was reintroduced with effect from 1 April 2014. The tax initially applied only to dumped waste but from 1 January 2015 also applies to waste incineration. The tax only relates to waste supplied by households and companies in the Netherlands. At the sector's insistence, an export tax was additionally imposed to prevent waste from being exported mainly to German waste treatment plants with considerable latent capacity.

Even during the crisis, when funding opportunities were limited, BNG Bank was able to continue its lending activities **without interruption**.

Waste treatment companies are investing in biofermentation plants for vegetable, fruit and garden waste. The products created after waste incineration and biofermentation (heat and power) make a significant contribution to the CO_2 emissions reduction targets and to local sustainability targets.

PRODUCTS AND SERVICES

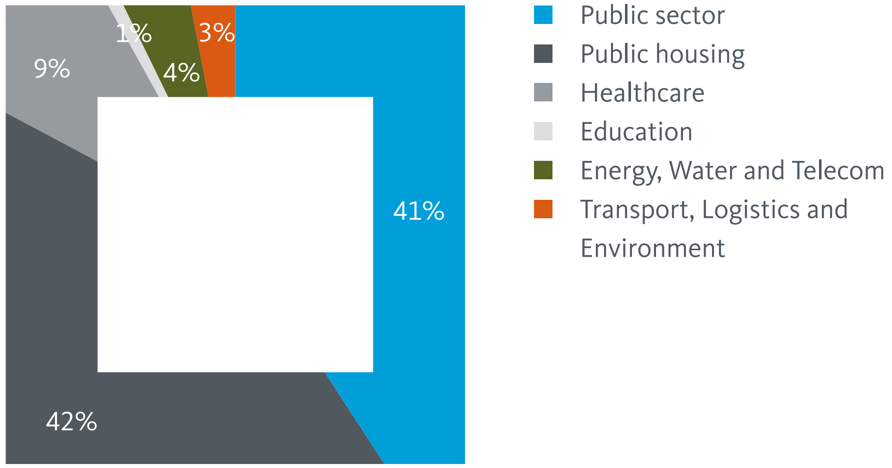
Lending is and remains the bank's core activity. BNG Bank also provides payment services, consultancy services, participates in area development initiatives and offers sustainable investments that are in line with the Local and Regional Authorities Financing Act (Wet Fido). The bank's main products and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

LOANS AND ADVANCES

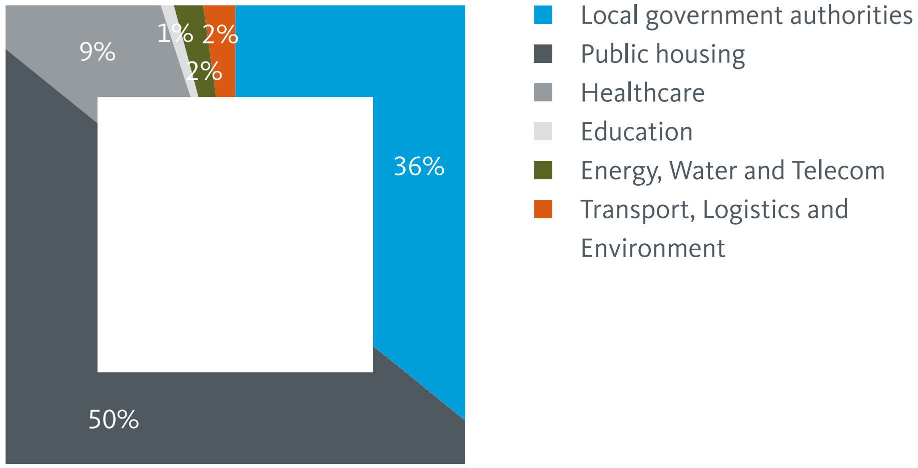
One of BNG Bank's strategic objectives is to be able at all times to meet the demand for credit from government authorities and public sector institutions. The current crisis has shown that even in times when the availability of funding is limited, the bank is able to continue providing loans and advances as normal. Due in part to the reticent attitude of the bank's competitors since the start of the current crisis, BNG Bank's market share in long-term solvency-free lending has remained stable at very high levels in the past few years.

New long-term lending declined by EUR 2.7 billion to EUR 9.2 billion relative to 2013. The bank's consistently high market shares in the various sectors reflect a sharp decrease in client demand. The graph below shows a breakdown of the key sectors.

BREAKDOWN OF NEW LONG-TERM LENDING IN 2014



BREAKDOWN OF LONG-TERM LENDING PORTFOLIO AS AT 31-12-2014



The decline in client demand can mainly be seen in the housing association sector. The amendment of the Housing Act proposed by the government will curtail the field of business of housing associations, the bank's largest client group. In response, housing associations are postponing new investments or selling parts of their housing portfolio. In addition, competition in housing association lending has increased slightly. More providers have recently become active mainly in the very long-term loan segment. The demand for financing from the municipal and provincial authorities in the reporting period was also lower than in the same period of the previous year. The decentralisation of tasks from the central government to the municipalities, such as youth care and long-term care, is making municipal and provincial authorities cautious about making new investments. This effect is increased by the budget cutbacks linked to decentralisation. New healthcare sector lending was down in 2013 from 2014, mainly due to the lack of clarity on the financial situation of many healthcare institutions. The introduction of numerous new and often complex regulations in this sector has created uncertainty on the accuracy of income recognition in particular. The higher concentration risk in the bank's portfolio arising from the relatively high turnover in recent years has moreover led the bank to be reticent in meeting demand for credit from the healthcare sector, which tends to be subject to solvency requirements. Total lending subject to solvency requirements nonetheless rose by EUR 0.2 billion to EUR 1.4 billion. Demand for lending subject to solvency requirements rose cautiously across all sectors. The bank expects this trend to continue in the longer term, if the economic prospects of its clients improve and all uncertainty regarding the new legislative frameworks can be eliminated.

The total client long-term lending portfolio based on principal amounts declined by EUR 0.2 billion to EUR 83.0 billion in 2014 partly due to falling client demand. The average volume of short-term lending to clients declined by EUR 0.6 billion to EUR 4.6 billion relative to 2013. The decrease is mainly attributable to the consolidation of short-term funding in the public housing and healthcare sectors due, in part, to the historically low market interest rate.

PAYMENT SERVICES AND E-BANKING

BNG Bank's products and services enable clients to organise and manage their payments and liquidity efficiently. The 'My BNG Bank' web portal plays a pivotal role in these services. An important component of the portal is the Internet banking module BNG Payment Services, which enables payments to be made quickly and securely via the Internet. The 'BNG Treasury' module supports cash and treasury management activities. In early 2014 the development of the European payments market, the Single Euro Payments Area (SEPA), was successfully completed, enabling clients to use the new SEPA products well before 1 August 2014. For treasury banking purposes, BNG Bank assists the municipal and provincial authorities by automatically transferring excess liquidity to the treasury, on request. BNG Bank was able to retain its strong position in payment services in the year under review. The bank also facilitated the processing of the flows of funds between the central government and the local authorities, the so-called State Settlement (Rijksverrekening), in the past year.

ASSET MANAGEMENT

BNG Vermogensbeheer focuses on asset management for public interest institutions. Assets under management fell marginally in 2014, totalling EUR 5.0 billion as at 31 December 2014. The outflow arising from mandatory treasury banking was largely absorbed through organic acquisition. The organic growth is encouraging in terms of both assets under management and margins. BNG Vermogensbeheer invests chiefly in European investment grade bonds for both individually tailored investment portfolios and investment funds. Sustainable investments and sustainable portfolios lead to satisfying solutions – and returns – for clients. BNG Vermogensbeheer works with specialised institutions for the purpose of making sustainable investments.

AREA DEVELOPMENT

BNG Gebiedsontwikkeling realises spatial planning projects by taking a risk-bearing interest in such projects and deploying operational planning management capacity. BNG Bank's subsidiary works closely with the government parties concerned, taking account of public interests. At the end of 2014 BNG Gebiedsontwikkeling participated in 22 joint ventures. In 2014 significant progress was made in winding down two participations.

BNG Gebiedsontwikkeling is still suffering from the aftermath of the economic crisis. The first signs of recovery were visible mainly in the housing market and increasing activity was also evident in the industrial estate market. Nonetheless in the year under review this only resulted in concrete sales in a small number of development projects. A discussion on the future of BNG Gebiedsontwikkeling took place and was finalised in 2014. The decision reached was that BNG Gebiedsontwikkeling may propose new projects provided that they meet societal added value criteria and a new project execution approach is adopted to significantly reduce the risk profile. In the year ahead – just as in the year under review – the focus will mainly be on managing the existing portfolio.

CONSULTANCY

BNG Advies supports clients in finding innovative solutions in areas including financing, treasury, risk management and public-private partnerships. For a range of target groups, including administrators and directors, BNG Advies organises periodic training programmes and master classes covering topical financial and other subjects.

ADDED VALUE FOR SOCIETY

The degree to which the bank has accomplished its core activity – providing credit at low rates to or guaranteed by the Dutch public authorities – can be measured on the basis of the market shares it achieves in solvency-free lending. The bank amply achieved its strategic objective to fulfil more than 50% of the demand for long-term solvency-free lending from its core clients – municipalities, housing associations and healthcare institutions – again in 2014. This benefits society because municipal rates, social housing rents, healthcare charges and education fees are lower than would otherwise be the case. Across a total portfolio of more than EUR 80 billion every basis point (0.01%) means that BNG Bank provides credit at lower rates than its competitors would have done, equating to annual savings of over EUR 8 million in interest expenses. Low rates are feasible partly because the bank does not seek to maximise profit but aims to generate a reasonable return on equity. It should be borne in mind that capital growth is necessary in order to comply with the European leverage ratio requirements which enter into force in 2018. The added value of the bank's activities for society arising from rates and profit is estimated to be several hundred million euros, which are fed back to the government. Alongside the financial component, the bank's added value encompasses the activities it undertakes for the benefit society, an important element of which is facilitating sustainable client investments.

Our clients' sustainability objectives are principally guided by the National Energy Agreement signed in 2013. The second Municipal Barometer on the physical living environment, published in 2014, shows that municipalities see considerable potential for making the real estate they own more sustainable, for small-scale citizen initiatives and for households to save energy. The sustainability aspect plays a prominent role when clients weigh up the various alternatives for developing and implementing provisions or when carrying out large-scale maintenance. In the light of its public role, BNG Bank aims to support this guiding principle.

BNG Advies provides assistance in assessing the feasibility and financeability of new sustainable initiatives and constructions. By providing loans at competitive rates with extended maturity periods, the bank enhances the feasibility of sustainable investments.

Many clients do not link their financing directly to their investments. Their financing largely consists of balance-sheet financing, for which the portions allocated to operating activities, consolidation or sustainable investments cannot be specified. In the reporting year the bank issued a socially responsible investment bond, which offers the most sustainable municipalities, based on a best-in-class approach, the opportunity to raise balance-sheet financing from the loan income. Further details of the investment bond are provided in the Investment and financial counterparties section.
BNG Bank is involved on a project basis in various wind and solar-energy projects. It arranged co-financing in a consortium for a large wind farm. The bank also provides financing for a biomass power plant serving as a substitute to a conventional gas-powered plant. The loans issued for the roll-out of solar panels materialised in a concrete project for the installation of a total of 7,500 solar panels on 1,000 housing association homes. Other projects in this area are in various stages of development and finalisation. The amount outstanding for financing sustainable projects on a project basis has meanwhile risen to around EUR 823 million.

Total loans outstanding to fund sustainable projects amounted to over **EUR 823 million**.

IN DIALOGUE WITH, AND FOR THE BENEFIT OF OUR CLIENTS

The financial prospects for the municipal and provincial authorities are challenging. Limited resources and an expanding range of duties have further highlighted the need to manage the risks arising from investments, partnerships and guarantees. Local councillors also have a greater need for receiving information at an early stage regarding the financial position of their municipality. BNG Bank discusses the client’s specific position and actively works on raising awareness and policy-making during consultation sessions. The bank regularly participates in public meetings to discuss themes that are relevant to the bank and its stakeholders, such as the decentralisation of healthcare tasks. For an overview, see bngbank.nl.

BNG Bank's social engagement initiatives include offering room and drawing attention to relevant developments among its clients.

During the parliamentary inquiry into the functioning of housing associations, the Chairman of the Executive Board provided further information on the course of events surrounding housing association financing. BNG Bank exercised restraint in issuing derivatives and stopped the issuance in 2012, with the exception of a number of special cases in connection with consortium financing. The Parliamentary Inquiry Committee's final report highlights the market position of sector banks, which the Committee believes is dominant, though it does acknowledge the crucial role the sector banks played during the credit crisis in providing uninterrupted financing to the housing association sector. BNG Bank understands the concerns raised about the sector's considerable reliance on a handful of banks. Initiatives undertaken by the sector on the capital market, however, have not yet led to a competitive alternative. BNG Bank's high market shares reflect the fulfilment of its mission in keeping the costs of social provisions sustainably low. The bank is helping to widen the freedom of choice for housing associations and the healthcare sector as illustrated by the cooperation agreement concluded by BNG Bank and the European Investment Bank to invest jointly in projects in areas such as housing, education, care, renewable energy and water.

The bank takes part in relevant consultation forums with policy developers and interest groups and draws attention to its viewpoints among the respective members of government. An example is the contact the bank maintains with all of the main health insurers and with umbrella organisations such as Zorgverzekeraars Nederland, in which attention has been sought for the issue of healthcare institutions' funding. As a result of the major systemic change in funding, the risks that were previously borne by the government have now been transferred to the banks and health insurers. The provision of advance financing by health insurers is no longer a matter of course. The support from now on being sought from the banks will constrain banks' capacity to finance healthcare real estate. Under the current system healthcare institutions can go bankrupt partly because government support will no longer apply in all cases. In the current circumstances the sector is only served by a handful of Dutch banks which have seen credit demand rise sharply in recent years. In view of the risks described, the required financial resources are no longer automatically available from banks. BNG Bank has similarly adopted a reticent attitude towards issuing non-guaranteed funding.

BNG Bank is helping to widen the **freedom of choice** for housing associations and the healthcare sector. One example of this is the **joint-investment agreement with the EIB**.

This issue has explicitly been brought to the attention of the Ministry of Public Health, Welfare and Sport, which has meanwhile initiated an exchange of views between the parties concerned – healthcare providers, health insurers and banks – to find a solution.

CUSTOMER SATISFACTION

BNG Bank maintains close contact with its clients to discuss their needs and their expectations regarding the bank's activities. An important tool used in this context is the customer satisfaction survey, which gives clients an opportunity to express an opinion on the bank's policy and performance in terms of customer services. The results of the customer satisfaction survey conducted in the reporting year reflect a high score of 8.0 for the bank's services. The respondents associate the bank specifically with the term 'reliable'. The specific areas in which the BNG Bank distinguishes itself positively from the competition are customer service, payment services, training programmes, BNG Advies, account management and its customer magazine B&G. The areas for improvement highlighted include handling complaints, modernising certain processes and payment service applications, and the user-friendliness of the website. A new version of the website has meanwhile been launched. In response to the survey conclusions, managers were asked to initiate improvement activities, which will be monitored and guaranteed. Detailed information on the results of the customer satisfaction survey are provided on bngbank.nl.

In conjunction with the Association of Netherlands Municipalities (VNG) the bank publishes the magazine B&G, which seeks to offer clients and other interested parties a platform for raising relevant policy matters. The magazine is much appreciated, according to the customer satisfaction survey. The topics covered by the publication in the reporting year included current developments and legislative amendments in the housing association sector, municipal partnerships and developments surrounding sustainability and social return. These articles can be viewed on bngbank.nl.

THE WORLD BEHIND OUR CLIENTS

BNG Bank believes it is essential to promote art and cultural activities that are of importance to municipalities. Fifty years ago, the bank founded the BNG Cultuurfonds with the aim of promoting art and cultural activities. The fund primarily awards project grants, but it also stimulates young talent by awarding prizes and supporting theatrical, literature, youth circus, dance and visual arts projects. Talented young classical musicians are stimulated through a cooperation agreement with the National Youth Orchestra. The BNG Heritage Award encourages municipalities to pursue an effective heritage policy and to draw inspiration from each other in this area. The year 2014 marked the 100th and the 50th anniversaries of BNG Bank and BNG Cultuurfonds respectively. The bank and the fund jointly celebrated their anniversaries with the launch of the Eternal Youth project, offering talented young producers and theatre companies an opportunity to stage new productions themed around Eternal Youth. A professional assessment committee selected fourteen productions out of more than 60 submissions. The premieres of these productions were staged at unique (cultural or industrial) heritage sites. The project culminated in a gala performance held in December of the reporting year in the presence of Her Majesty Queen Máxima. Several productions were such a resounding success that they were subsequently staged for a wider audience.

In the light of its 100th anniversary the bank published an anniversary book in 2014 written by historians associated with Utrecht University. The book, entitled ‘Capitalising on Creditworthiness’, covers the history of BNG Bank’s operations in a broad historic, financial-economic and political context.

BNG Bank contributes to raising youth awareness of money matters . As part of the Banking for Students programme, bank employees visited groups 6, 7 and 8 of several primary schools during Money Week. In March of the reporting year, 21 BNG Bank employees temporarily switched their job for that of guest lecturer and taught a total of 41 guest lessons. The bank offered work placement positions to a number of students and assisted them in writing a thesis or assignment. Once a year BNG Bank employees do voluntary work at a healthcare institution, usually one of the bank’s clients. In September over 50 bank employees visited the ’s Heeren Loo healthcare institution in Noordwijk and carried out a number of activities together with ’s Heeren Loo clients. ■

MUNICIPALITIES MAKING SUSTAINABILITY INROADS

LEEUWARDEN

ALDERMAN ISABELLE DIKS

Smart. That's the keyword for the sustainability strategy Leeuwarden has been pursuing for a number of years. The vision document dating from 2010 was given the title Smart use of water and energy. The programme for enhancing the sustainability of homes is called Smart living in Leeuwarden.

'To us, sustainability means a combination of the four p's (people, planet, profit, and prophesy)', says Isabelle Diks, alderman (PAL/GroenLinks) in response to the question of what the term sustainability means to her. 'It's not just about reducing CO_2', she explains. 'Sustainability is an integral part of our economic programme that focuses not on organising 'green' work, insulating homes and installing solar panels, as well as on getting innovative green companies to set up business here or encouraging them to develop their activities. We use our sustainability policy to create employment and reduce the environmental impact.'

Diks believes that the South African word volhoud-baar ('maintainable') is a good alternative for the Dutch term duurzaam ('sustainable') 'It expresses that things are repeatable without inflicting damage for the future or on future generations. It's also entirely in line with the trend towards a much more circular economy. Like making smart combinations in the region, for instance in food production and energy generation.' Collaboration with the province and the Northern Netherlands region is self-evident for Diks. 'A strong city cannot exist without a strong countryside. Yet the opposite is also true. Each exists thanks to the other.'

This vision and its implementation have already delivered significant benefits. New businesses specialising in water and energy have been set up. One thousand homes have become more energy efficient. The city buses are powered by green gas and green petrol stations have been built supplying biogas. According to Diks, concrete objectives have helped create focus, so that everyone works along the same lines. ‘Our programme focuses on three key objectives: renewable energy, smart water technology and agrifood. When spending our budget to drive and promote sustainability, we spend it on one or more of these three key objectives.’

Leeuwarden’s ambitious objective of being entirely fossil fuel free by 2020 seemed to be feasible for quite some time. New residential areas will be connected to the biogas network. Public transport already operates entirely on green gas (upgraded biogas). However, implementing major projects for sustainable energy production proved to be more challenging than anticipated. According to an evaluation carried out in 2012, the bottlenecks are not so much of a technical nature but rather at the level of financing, organisation and spatial integration.

For example, the business case for BioNoF, a major innovative biogas project in the north of Friesland that would generate 28% green energy in Leeuwarden, has not yet materialised because a subsidy under the Promotion of the Sustainable Supply of Energy (SDP) programme was not granted. The rising demand for and therefore the higher costs of the bioproducts required for the fermentation process have not helped either. It is disappointing. ‘But we won’t give up,’ says a determined Diks. ‘It still is our goal to be fossil fuel free but the process has clearly been delayed.’

LANDGRAAF

ALDERMAN FREED JANSSEN

Essentially Freed Janssen is pleased with the Energy Agreement, but what he is worried about is the discussion of memoranda and policy documents, which takes up a lot of time in meetings – time that you could also spend on concrete activities. The Limburg alderman would rather 'just get on with it'. 'I'm mostly frustrated by the fact that we're all really good at writing one agreement after the other while in practice, it often is quite a different story. We need a drive, a basic mindset towards sustainability. The Energy Agreement seems to be a step in the right direction, but more importantly we should just get on with it. Every step you take means that you can kindle enthusiasm in other people and convince them, rather than bickering about what should and shouldn't be included in the Agreement. This sometimes is difficult but you need to persevere to get what you want; only then will you actually achieve something'.

The municipality of Landgraaf, where Janssen has served as an alderman for eight years and prior to that as a municipal councillor for a local party for four years, has not put a sustainability policy on paper. Unlike many other municipalities, it has not incorporated the theme in the municipal coalition agreement. 'We haven't embedded sustainability in a policy document, which does not mean to say that we're not working on it. Quite the opposite in fact.' Janssen talks about the gradual switch to LED for public lighting, disconnecting the rainwater discharge from the sewerage system, energy performance recommendations to residents, electrical vehicle charging points, environmentally friendly weed control and the sustainable use of materials when redesigning squares and parks. An assessment is due to be carried out into enhancing the sustainability aspects of the town hall, for which an external party will make the relevant investments. This will enable the municipality to contribute to lowering CO_2 emissions without incurring any financial risk.

You need to fight for every single project because the municipality thinks twice before spending any money. In times of severe spending cuts, sustainability investments are not on the municipality's priority list because of the costs involved. However, for the latest sustainability project which Janssen successfully promoted, he was eventually given the green light. Landgraaf will therefore gain energy-neutral public lighting in the course of this year. To keep all the street lamps burning, the required amount of solar energy will be generated by solar panels on the roofs of the homes of residents participating in the project. Needless to say this wasn't an overnight process.

With solar panels on 560 roofs of private homes, Landgraaf aims to generate the amount of energy required for public lighting: 1.5 million kWh. BNG Bank granted the municipality a loan, the repayment of and interest on which will be funded from the contribution made by the participating residents. They will pay a fixed contribution over a 15-year period which, starting from the first year, will be lower than the savings on energy costs. With the current energy prices residents will benefit right away, and when prices rise the benefit will only be greater. The loan will be repaid in 15 years and citizens will then derive maximum benefit, since the solar panels have a 25-year life cycle. BNG Bank advisers were involved in the risk analysis incorporated in the project plan.

Things do come together nicely from time to time. Three pupils at the Charlemagne College secondary school in Landgraaf developed Play4Ppower, an energy-generating playground. The initiative had already won a prize in 2012 and Freed Janssen was on the look-out for a suitable site in the municipality. When he was presented with a petition last year containing the signatures of 1,400 residents who wanted public lighting near a 550-step stairway on the slope of Wilhelminaberg, it didn't take long to put two and two together. The playground is currently undergoing further development at the bottom of the stairway and will power the lighting along the stairway. The lighting will increase the social safety of sport lovers using the stairway. This, in turn, marks a further step forward in the achievement of Landgraaf's ambition to raise the profile of Wilhelminaberg as a landmark for the area.

Investors and financial counterparties

FUNDING

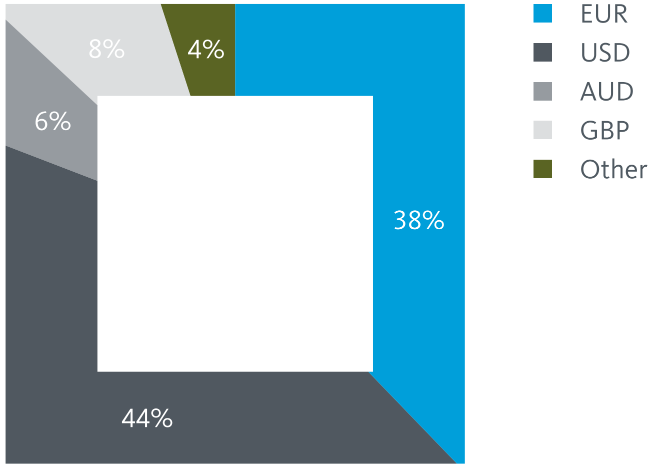
BNG Bank's long-term funding is largely carried out by issuing bond loans under the EUR 90 billion standardised Debt Issuance Programme. The bank raises loans in various currencies, with terms and conditions tailored to the needs of both institutional and private investors. By tailoring the supply of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

The increasing confidence in the euro and in the European banking sector on the international capital markets generated a broader supply of long-term funds during the year under review, partly due to which the spreads that investors are willing to receive to invest in BNG Bank's bonds decreased again in 2014. The return of confidence put an end to the large purchasing benefits which BNG Bank, as a safe haven, managed to realise in the recent crisis years when attracting short-term funding. The bank nevertheless continued to fulfil its short-term liquidity requirements at attractive rates.

At the end of 2014 the Dutch Central Bank confirmed BNG Bank's status as a 'promotional lender'. This means that bonds issued by BNG Bank qualify as Level 1 assets for the calculation of the Liquidity Coverage Ratio, which became mandatory under the new liquidity requirements for banks in 2014. From a liquidity perspective too, the bank's bonds thus remain attractive for other banks, which has a favourable effect on the bank's purchasing rates.

For both refinancing and lending purposes, BNG Bank raised EUR 14.9 billion in long-term funding in 2014 (2013: EUR 15.0 billion). The amount exceeds the forecast, due to the desire to limit the use of the (short-term) ECP programme. In line with the relatively short maturities of new long-term lending the weighted average maturity of total long-term funding fell by 1.1 years to 5.5 years relative to 2013. In the reporting period the bank issued bonds in ten different currencies. The currency and interest rate risks of these issues are fully hedged. The share of US dollar issues at 44% again was high in 2014. The relatively high availability of US dollar funding made it attractive for the bank to issue bonds in this currency. The graph below contains a complete breakdown by currency for 2014.

BREAKDOWN OF LONG-TERM FUNDING GENERATED IN 2014, BY CURRENCY



Each year the bank issues a number of benchmark loans to ensure that BNG Bank yield curves in euros and US dollars continue to be available to institutional investors. In 2014 BNG Bank issued eight benchmark loans in euros and US dollars, with volumes varying between 1.0 and 1.5 billion. The euro equivalent of the total amount issued in benchmark loans was EUR 9.2 billion (2013: EUR 8.9 billion).

ISSUE OF FIRST SOCIALLY RESPONSIBLE INVESTMENT BOND

BNG Bank relies on the international financial markets to raise funding. Name recognition, the bank's credit quality and proper alignment of the bank's needs with investing parties' preferences are essential preconditions for raising the necessary funds for lending at attractive terms. BNG Bank pursues an active investor programme for this purpose, and to that end held presentations countries such as China, Japan, the USA, the United Kingdom and Germany in 2014. Interest among investors is growing worldwide for corporate social responsibility (CSR). As part of its CSR programme, BNG Bank examined the possibility of issuing a socially responsible investment bond in response to investor demand and to promote sustainability efforts among municipalities. As the bank mainly provides balance-sheeting financing to clients, which funding is not specifically linked to sustainable projects, a methodology needed to be devised to determine clients' sustainability scores. At BNG Bank's request Telos, Tilburg University's Sustainability Centre, conducted an independent sustainability assessment of all 403 Dutch municipalities according to three pillars (ecological, social and cultural, and economic), 19 themes and 90 quantitative indicators. The European Reference Framework for Sustainable Cities (RFSC) was used as a guideline. The municipalities were subsequently classified into eight types. The funds generated by the socially responsible investment bond

The **SRI bond** initiative raised **EUR 500 million**, which was invested in the **top 15 of most sustainable municipalities**.

totalling EUR 500 million have been invested in the top 15 sustainable municipalities. For transparency and regular reporting purposes Telos will provide an annual impact report which, along with all other relevant information, will be published on the BNG Bank website. The bank expects to issue another socially responsible investment bond in 2015. ■

Employees

WORKFORCE

The bank's workforce including its subsidiaries grew from 272 FTEs in 2013 to 278 FTEs at the end of 2014. Headcount increased by 11 FTEs mainly on account of the increased regulatory burden. Women account for almost one third of the employees. The age structure of the workforce is typified by a relatively high average age (46.5 years) and a high average number of years of service (almost 14 years). The outflow of current employees and the inflow of new employees are expected to remain limited in the years ahead. Older employees are working longer in the same position as a result of the reduced options for taking early retirement. The number of external employees, around ten FTES, is relatively low and has been fairly consistent in the past few years. In the reporting year the bank was forced to call on external advisers to help deal with the enquiries from regulators arising from the Asset Quality Review and the Stress Test.

TRAINING AND DEVELOPMENT

The bank operates in a complex and dynamic environment. The need for employees with specialist knowledge has risen considerably in recent years as a result of the increased and more complex regulatory requirements; the majority of the positions are university level (higher professional or research-oriented education). The increased workload arising from laws and regulations, projects and the transition to ECB supervision has led to a greater need for the flexible deployment of staff. Our employee development programmes therefore place a strong emphasis on enhancing relevant knowledge and expertise. Alongside the personal development plan drawn up by individual employees in consultation with their manager, the programme takes account of organisational needs. Training costs developed from EUR 1,564 per employee in 2013 to EUR 2,209 per employee in 2014.

In 2014 BNG Bank set up 'Basel III in practice', an in-company training programme aimed at equipping more employees with current knowledge and a thorough understanding of the Basel III regulatory requirements to ensure they remain a substantive discussion partner for their clients. The implications for

Simplification of processes helped to increase the **efficiency of operations** in 2014.

the bank based on a number of 'what-if scenarios' were discussed in various groups. Internal sessions on elaborating risk appetite were again held in 2014. In 2015 around 100 BNG Bank employees are scheduled to take an English course to enable them to communicate more fluently with the ECB.

Further progress was made in 2014 on the aspect of collaboration and efficient business operations, among other things by simplifying certain processes or structuring them differently. A training programme was developed in association with a core team of managers to promote collaboration among managers. The management training programme commenced at the end of the year. The exchange of colleagues among departments and internal work placements help increase the flexibility and deployability of employees.

HEALTH

The bank offers employees an opportunity to take part in a periodic health examination. Almost two-thirds of our employees underwent a health examination in 2014, illustrating their considerable interest in a healthy lifestyle. Based on the individual results of the health examination, employees can receive guidance on reducing potential health risks. The examination provides the bank insight into potential work-related risk factors. The bank has a low absenteeism rate, which is lower than the sector average.

CONSULTATIONS

BNG Bank has an employee-elected Joint Works Council (GOR), which regularly consults with the Executive Board. Recurring themes in these consultations are the bank's strategy, the general course of business, the annual plan, the budget and social policy. For more information, visit: bngbank.nl. The Joint Works Council is actively involved in developing the terms of employment for employees.

JOB-RELATED

An employee satisfaction survey will be conducted in 2015. Furthermore knowledge of employee development potential will be increased based on review meetings with managers followed by personal development meetings with employees. Emphasis will be placed on employee vitality by taking preventive measures.

This includes a follow-up on the periodic health examination with individual guidance for employees on improvement opportunities. Diversity is given the necessary attention across all levels of the organisation.

Improvements to the job remuneration system will be examined in 2015, the aim of which is to ensure a balanced job classification system in which remuneration matches the allocation of tasks, powers and responsibilities. The study will cover the total remuneration package, including variable remuneration. The discussion of remuneration at banks will also affect secondary employment conditions.

Employees receive information on current matters during so-called BNG Update Sessions, 22 of which were held in the reporting year. The matters discussed during these meetings included the annual results, risk management policy, changes to the regulatory regime, CSR Policy, the health check-up, the General Collective Labour Agreement for the Banking Industry, and pension developments.

WORKING ENVIRONMENT

With environmentally conscious internal operations in mind, the decision was taken to reduce energy and paper consumption. In the reporting year the bank began replacing the traditional halogen lighting in the offices with LED lighting. The settings on the heating and cooling system were optimised. A further decision was taken to replace the current photocopiers/scanners with multifunctional machines which consume less energy. These machines offer additional functionality to help reduce paper consumption. BNG Bank purchases ‘green energy’, but also aims to contribute to sustainable energy generation and therefore decided to install solar panels on the roof of the bank building. ■

GEMINI WIND FARM HELPS EUROPE ATTAIN RENEWABLE ENERGY OBJECTIVES

On 14 May 2014 the final contracts were signed for Gemini, one of the world's largest offshore wind farms. BNG Bank is one of the twelve lending institutions. Gemini offshore wind farm is being built in the Dutch section of the North Sea, 85 km north of the coast of Groningen, at a location that has strong, constant winds and is invisible from land.

Gemini will supply green power to more than 785,000 households (1.5 million people, equivalent to the number of inhabitants of the three northern Dutch provinces). The wind farm is set to reduce CO_2 emissions by 1.25 million tonnes, thereby contributing to creating an independent energy supply for the Netherlands and Europe. With a capacity of 600 MW Gemini is destined to produce 2.6 TWh of electricity, making it one of the world's most productive wind farms. Its high production capacity is driven by its favourable location and relatively small wind turbines. Gemini's location records the highest wind speeds in the Dutch section of the North Sea.

The EUR 2.8 billion in project financing is the largest sum provided to date for an offshore wind farm. Around 70% of the required sum was issued in the form of project financing by 12 international lending institutions, the European Investment Bank and three export credit companies. The Ministry of Economic Affairs has pledged a maximum sustainable energy subsidy for operating the wind farm of EUR 4.5 billion over a 15-year period (from the time the wind farm starts supplying energy).

Gemini is owned by a consortium consisting of Canadian independent energy producer Northland Power Inc. (60%), Siemens Financial Services (20%), Van Oord Dredging and Marine Contractors BV (10%) and NV HVC (10%). HVC is a leading utility company owned and used by 48 Dutch municipalities and 6 water boards. Gemini plays a key role in achieving the target set under the European Renewable Energy Directive, which calls for the EU Member States to derive 20% of their energy consumption from sustainable sources by 2020. Providing financing for the Gemini offshore wind farm ties in with BNG Bank's mission to make a sustainable contribution to minimising the costs of social provisions for citizens.

NATIONAL MILITARY MUSEUM EXEMPLIFIES PUBLIC-PRIVATE PARTNERSHIP

At the end of 2014 His Majesty King Willem Alexander officially opened the National Military Museum, which is situated in the northern section of the former Soesterberg air base. Through the new museum the Ministry of Defence aims to communicate the significance of the armed forces today, in the past and in the future to the public at large. The Delft Military Museum and the Soesterberg Air Force Museum have merged into the new museum. For the purpose of financing the museum BNG Bank, NIBC and NMM Company BV signed a 27-year DBFMO financing agreement for approximately EUR 82 million in 2012. DBFMO is a type of public-private partnership and a far-reaching form of integrated procurement. In addition to the development costs, the DBFMO contract also sets out the total costs throughout the entire life cycle of the property involved. It combines the design, construction, management and maintenance of a project. The contractor also finances the design and construction. The client – the user of the property – pays the contractor a periodic performance-based fee during the operational phase. In this project, DBFMO involves the construction, museum interior furnishing, partial operation of the museum and the grounds surrounding it. On completion of the museum, NMM Company BV will receive an availability payment for a 25-year period, out of which the operating and funding costs will be paid.

Laws, regulations and regulators

DEVELOPMENTS IN LAWS AND REGULATIONS

In an effort to improve banking solidity, a number of regulators are rapidly implementing numerous legislative and regulatory proposals. Although there are good reasons for undertaking these efforts, almost all of these proposals will either directly or indirectly increase the burden on banks – sometimes quite significantly so. This will ultimately have negative implications for bank clients, with loans becoming more expensive and less readily available. The new regulations also have far-reaching consequences for BNG Bank. Besides a structural increase in operating expenses and the contribution towards taxes, the extent and pace at which the proposals are being implemented make considerable demands on a relatively small organisation. The new European regulator's uniform approach also has a major impact. The large volumes of data requested within increasingly shorter time frames require adjustments to be made to the bank's processes and systems. Most implications for BNG Bank are due to additions and amendments to IFRS regulations, the new Basel III regulations and the steps taken by the European Commission to create a European banking union.

The IFRS regulations concerning the classification and valuation of financial instruments, i.e. the replacement of IAS39 by IFRS 9, will be implemented with effect from 1 January 2018. Based on the final regulations, the bank expects to be able to value the majority of its assets at amortised cost under IFRS 9 as well, thus avoiding volatility in the income statement. The amendments to the hedge accounting regulations – recording hedged risk positions in the accounts – are expected to have a limited impact on the bank's results. The impairment proposal could potentially have larger implications. The incurred loss provision is expected to turn out considerably higher because loans on which no actual losses have been incurred to date but which do pose a considerably higher risk, will count more heavily in the incurred loss provision. Moreover, contrary to the current regulations, the Financial assets available-for-sale without an individual impairment must be included in the calculation of the provision.

Well-intentioned though they may be, the new legislative proposals will ultimately prove to have **negative effects** on the **clients** of banks.

IFRS 13 Fair Value Measurement has led to the mandatory adjustment of the valuation of derivatives. The bank uses these instruments to hedge currency and interest rate risks and will, in principle, maintain them until maturity. In accordance with market practice, derivatives are valued at the Overnight Index Swap Curve (OIS), which is drawn up on the basis of the one-day interest rate for the eurozone (Eonia). The bank has adapted its systems, including hedge accounting, accordingly. Furthermore a value adjustment must be stated for the potential credit risk associated with derivatives involving no or a limited exchange of daily collateral obligations. The volatility of the annual result has increased slightly but structurally as a result of the value movements.

The regulations known as Basel III (or the Third Basel Accord) have meanwhile been transposed into the EU Capital Requirements Directive IV (CRD IV) and will be implemented in various stages between now and 2019. CRD IV consists of a Capital Requirements Regulation (CRR) and a Capital Requirements Directive (CRD). The CRR sets out EU rules that apply directly to institutions. The CRD sets out rules which must be implemented in national legislation. CRD IV is more comprehensive than Basel III and is still undergoing further development. Even though the text of CRD IV is final, the European Banking Authority (EBA) still needs to provide a technical explanation on what the rules mean exactly in many areas. There are numerous, comprehensive technical standards. Numerous new regulations were again published in 2014.

The application of the leverage ratio in which capital and the balance sheet total are divided by each other without weighing the risk on assets will have the greatest impact on BNG Bank's business model. This will adversely affect the bank because the majority of its balance sheet consists of relatively large solvency-free loans (with a 0% risk weighting). The EBA has been asked to prepare an analysis by 2016 at the latest of how high the ratio should be, in part to reflect the individual banks' different business models. BNG Bank's business model is deemed to entail less risk on account of its specific client groups. This enables the bank to make a strong case toward the regulators and the central government to reiterate the negative impact of such a broad capital requirement on niche banks, such as BNG Bank. Partly in view of the current discussions in the Netherlands – in which the Minister of Finance requires a 4% minimum for the four systematically important banks – the bank has assumed in its capital planning that the 3% lower limit proposed under Basel is unlikely to be adjusted downward. In 2014 BNG Bank drew up a plan for meeting the 3% minimum standard for the leverage ratio by the end of 2017 at the latest. The plan was made available to the regulators.

The transfer of European banking supervision to the ECB with effect from 4 November 2014 marks the first step towards a European banking union. The Single Resolution Mechanism (SRM) represents the second step. One of the main developments resulting from the above is the EU directive for the recovery and resolution of credit institutions, the Bank Recovery and Resolution Directive (BRRD), which was finalised in the reporting period. Under the BRRD the authorities concerned may seek contributions from, among others, holders of senior unsecured bonds and large depositors for the resolution of banks (bail-in). This is designed to prevent only the ‘taxpayer’ from having to pay the bill for insurmountable problems at banks. This has led Moody’s and Fitch to assign a negative outlook to BNG Bank’s reconfirmed triple A rating. The bank is actively engaged in the discussion concerning the final implementation of the regulations and is also in dialogue with the rating agencies on this issue.

The European Commission reached agreement on building up a resolution fund in ten years. The banks are required to pay 1% of their covered deposits into the fund in total, which equates to some EUR 55 billion. The individual ex ante contribution from each bank will be calculated on the basis of the ratio between the relevant bank’s total liabilities (excluding equity and covered deposits) and the total amount of liabilities of all participating banks combined. The contribution will subsequently be adjusted for the risk of the individual institution.

Under the SRM, banks are also required to prepare and maintain recovery and resolution plans. The aim of the recovery plan is to enable banks to set out how they intend to recover in the event their risk appetite has been exceeded. Should recovery no longer be possible, the resolution of a failing bank must be dealt with in a proper manner so as to avoid any systemic shocks as much as possible. A resolution authority must develop a resolution plan accordingly. The purpose of these plans is to identify in advance the most appropriate resolution tools and how resolution can be effected in the proper manner. The EBA is responsible for establishing technical standards on the basis of the EU Recovery and Resolution

Directive. In view of the fact that these regulations are still in draft, the Dutch Central Bank has developed its own resolution plan framework which will apply to banks in the Netherlands. BNG Bank's recovery plan has meanwhile been completed, approved by the Dutch Central Bank and submitted to the ECB. The Dutch Central Bank will develop a resolution plan for BNG Bank in due course.

The European Securities and Market Authority (ESMA) has issued regulations for the central clearing of derivatives under the descriptor of the European Market Infrastructure Regulation (EMIR). This also concerns the central clearing of specific types of derivatives, new rules for non-centrally cleared derivatives and detailed reports to designated authorities. The structure of the central clearing system has proven to be complex. The implementation of the mandatory clearing of the most basic derivatives has been postponed until the beginning of 2016.

Within the context of the ECB's prudential supervision, BNG Bank asked that consideration be given to its **specific characteristics** as the bank of and for the Dutch public sector.

INTENSIVE CONTACT WITH THE REGULATORS

The contact maintained with the Dutch Central Bank was particularly intensive in 2014. This had to do with the increased intensity of regular prudential supervision but also, and particularly, with the ECB's Comprehensive Assessment which, in the Netherlands, was mainly carried out by the Dutch Central Bank.

The Comprehensive Assessment was a major project involving project organisations at the ECB, the Dutch Central Bank and BNG Bank. Since the Dutch public sector and BNG Bank were relatively unknown to the ECB, the Dutch Central Bank assisted BNG Bank by clearly explaining its specific characteristics, which we sincerely appreciated. The ECB assumed responsibility for prudential supervision with effect from 4 November 2014 and the new style of working will gradually take shape in 2015. Supervision will be of a more formal nature and largely based on obtaining large volumes of data held by the institutions subject to supervision. On several occasions in the past year the bank asked that consideration be given to its specific characteristics as the bank of and for the Dutch public sector, which had hardly been taken into account in the uniform approach adopted. To cope with the increased intensity of supervision, the bank has set up a department specifically for the purpose of dealing with the issues surrounding supervision as well as communication with the ECB and the Dutch Central Bank. ■

DILEMMA: FEASIBILITY

Technical risks, market risks, major government spending cuts and municipalities' reticence to enter into public-private partnerships have dampened client interest in contracting out long-term work/project financing. Whilst the Energy Agreement seems to signify a new impetus, it is difficult to gain proper insight into the level and stability of market demand.

In practice sustainable investments often are local, small-scale and embrace certain ideals. Development projects proceed in small steps and are generally not underpinned by a durable policy. Against this background parties initiate sustainable projects themselves. The problem facing BNG Bank is that its organisation – which is relatively small in terms of headcount – has not been designed to issue small loans of under EUR 5 million with a high credit risk. Small projects with a high credit risk that require close attention do not dovetail with the bank's business model, which is geared towards a low level of risk in the loan portfolio to ensure that the bank can continue to fulfil its public role.

PURMEREND: BIO-HEAT FROM WOOD CHIPS

MOST GREEN ELECTRICITY IN THE NETHERLANDS IS GENERATED BY THE COMBUSTION OF ORGANIC WASTE IN WASTE-FIRED POWER PLANTS, BY ADDING WOOD TO FIRE POWER STATIONS AND BY BIOGAS PLANTS. ONE RECENT EXAMPLE IS BIO-HEAT PLANT DE PURMER: A HEATING PLANT FIRED BY WOOD CHIPS THAT PROVIDES HEAT AND HOT WATER TO 24,000 HOUSEHOLDS AND 1,000 COMPANIES IN PURMEREND. STAATSBOSBEHEER WILL SUPPLY AROUND 100,000 TONNES OF WOOD CHIPS (BIOMASS) FOR THE PLANT EVERY YEAR. ORIGINATING IN THE MUNICIPALITY'S DISTRICT HEATING COMPANY, DE PURMER WAS FINANCED BY A LOAN FROM A CONSORTIUM MADE UP OF BNG BANK AND TRIODOS BANK.

EVANGELOS DIMITRAKAKIS, SPECIALIST IN STRUCTURED FINANCE

Outlook for 2015

BNG Bank expects that the total amount of new long-term lending will be slightly lower in 2015 than in the previous year. New lending is expected to relate primarily to the refinancing of maturing loans. The unfavourable economic climate coupled with spending cuts or increases in the financial burden offer the bank's core customers little room for new investments. In addition, a number of housing associations are more or less obliged to reduce their residential real estate portfolios. If the politically desirable sale of rented housing improves, the refinancing of maturing loans will be less self-evident in this sector.

In the light of the economic outlook it cannot be ruled out that a few debtors will no longer be able to meet their payment obligations, as was the case in recent years. As a result, an addition to the debt provision or an impairment may also be required in 2015.

At EUR 15 billion, BNG Bank's expected long-term funding requirement in 2015 is at the same level as in the previous year. The bank aims to maintain its strong liquidity profile by attracting funding with relatively long maturities. Furthermore, efforts will again focus on obtaining the optimum funding mix, with diversification into currency and maturity. BNG Bank also expects to issue hybrid capital securities and a second SRI bond in 2015.

The statutory bank levy will also apply in 2015. BNG Bank's contribution, which is determined on the basis of the balance sheet at year-end 2014, amounts to EUR 36 million and will be charged to the income statement in October 2015. From 2015, BNG Bank is also required to contribute to building up the European Resolution Fund over a ten-year period. The final apportionment key for the contribution from banks is not yet known. BNG Bank has taken account of a minimum contribution of approximately EUR 15 million in 2015.

The interest result for 2015 is expected to be lower than 2014.

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

The interest result for 2015 is expected to be lower than 2014. Due to the consistently low market interest rates, interest revenues from the bank's own funds are reflecting a downward trend. Moreover the return of confidence in the international money markets has normalised margins in the short-term loan portfolio. The large purchasing benefits which BNG Bank, as a safe haven, managed to realise in recent crisis years when attracting short-term funding are expected to be a thing of the past. The result on financial transactions will remain sensitive in the near future to political and economic developments within the European Union. The volatility of the bank's result is due in part to the adjustments to the bank's hedge accounting and the valuation of financial instruments. In view of the persisting uncertainties, the bank does not consider it wise to make a statement regarding the expected net profit for 2015. ■

Declaration of Responsibility

In the opinion of the Executive Board, the financial statements provide a true and fair view of the assets, liabilities, financial position and results of BNG Bank and the subsidiaries included in the consolidation. The Annual Report provides a true and fair view of the position as at the balance sheet date, performance during the financial year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated financial statements. The Annual Report also describes the material risks facing BNG Bank. ■

The Hague, 6 March 2015

Executive Board

C. VAN EYKELENBURG
CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	31/12/2014	31/12/2013
ASSETS		
Cash and balances with the central banks [1]	2,241	1,467
Amounts due from banks [2]	11,046	8,509
Financial assets at fair value through the income statement [3]	4,247	3,530
Other financial assets [4]	31,322	15,874
Financial assets available-for-sale [5]	13,693	9,607
Loans and advances [2]	90,732	92,074
Investments in associates and joint ventures [6]	54	53
Property and equipment [7]	16	17
Other assets [8, 9]	154	52
TOTAL ASSETS	**153,505**	**131,183**
LIABILITIES		
Amounts due to banks [10]	2,544	3,939
Financial liabilities at fair value through the income statement [11]	3,327	3,553
Other financial liabilities [12]	25,357	15,086
Debt securities [13]	106,069	94,828
Funds entrusted [10]	12,334	10,033
Subordinated debts [10]	32	32
Other liabilities [8, 9]	260	282
Total liabilities	149,923	127,753
Equity [14]	3,582	3,430
TOTAL LIABILITIES AND EQUITY	**153,505**	**131,183**

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

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	2014	2014	2013	2013
– Interest income [15]	1,258		1,514	
– Interest expenses [16]	814		984	
Interest result		444		530
Results from associates and joint ventures [17]		1		−1
– Commission income [18]	35		30	
– Commission expenses [19]	6		5	
Commission result		29		25
Result on financial transactions [20]		−187		−5
Other results [21]		4		3
TOTAL INCOME		**291**		**552**
– Staff costs [22]	38		36	
– Other administrative expenses [23]	27		26	
Staff costs and other administrative expenses		65		62
Depreciation [24]		2		2
TOTAL OPERATING EXPENSES		**67**		**64**
Impairments [25]		15		58
Bank levy [26]		30		33
PROFIT BEFORE TAX		**179**		**397**
Taxes [9]		−53		−114
NET PROFIT		**126**		**283**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2014			2013		
NET PROFIT			**126**			**283**
Recyclable results recognised directly in equity:						
Changes in cash flow hedge reserve		43			401	
Changes in the revaluation reserve for financial assets available-for-sale:						
– unrealised value changes	66			101		
– realised value changes transferred to the income statement	−12			−24		
		54			77	
		97			478	
Non-recyclable results recognised directly in equity:						
Changes in actuarial results		0			0	
RESULTS RECOGNISED DIRECTLY IN EQUITY			**97**			**478**
TOTAL			**223**			**761**

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

Page 1/2

	2014	2014	2013	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	179		397	
Adjustments for:				
– Depreciation	2		2	
– Impairments	15		58	
– Unrealised results through the income statement	198		32	
Cash flow generated from operations		394		489
Changes in amounts due from and due to banks (not due on demand)	−4,150		−464	
Changes in loans and advances	780		1,328	
Changes in funds entrusted	1,196		−1,255	
Changes in derivatives	927		−124	
Corporate income tax paid	−128		−216	
Other changes from operating activities	−7		−532	
		−1,382		−1,263
TOTAL CASH FLOW FROM OPERATING ACTIVITIES*		**−988**		**−774**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	−4,052		−3,974	
– Investments in associates and joint ventures	−1		−4	
– Property and equipment	−1		–	
		−4,054		−3,978
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	2,086		3,995	
– Property and equipment	–		–	
		2,086		3,995
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**−1,968**		**17**

* Interest received amounted to EUR 5,318 million (2013: EUR 5,553 million) and interest paid amounted to EUR 4,746 million (2013: EUR 5,008 million).

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

Page 2/2

	2014	2014	2013	2013
CASH FLOWS FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Debt securities	49,604		54,270	
– Financial liabilities at fair value through the income statement	22		21	
		49,626		54,291
Amounts paid on account of:				
– Debt securities	−45,683		−54,405	
– Financial liabilities at fair value through the income statement	−142		−408	
– Subordinated debts	−3		−2	
– Dividend	−71		−83	
		−45,899		−54,898
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**3,727**		**−607**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**771**		**−1,364**
Cash and cash equivalents as at 1 January		1,469		2,833
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**2,240**		**1,469**
Cash and cash equivalents as at December 31 comprise:				
– Cash and balances with the central banks		2,241		1,467
– Cash equivalents in the Amounts due from banks item		2		2
– Cash equivalents in the Amounts due to banks item		−3		–
		2,240		**1,469**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	RE-VALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPRO-PRIATED PROFIT	TOTAL
BALANCE AS AT 1 JANUARY 2013	**139**	**6**	**103**	**−69**	**2,241**	**332**	**2,752**
– Net profit						283	283
– Unrealised results			77	401			478
– Dividend payment					−83		−83
– Appropriation from the previous year's profit					332	−332	–
BALANCE AS AT 31 DECEMBER 2013	**139**	**6**	**180**	**332**	**2,490**	**283**	**3,430**
– Net profit						126	126
– Unrealised results			54	43			97
– Dividend payment					−71		−71
– Appropriation from the previous year's profit					283	−283	–
BALANCE AS AT 31 DECEMBER 2014	**139**	**6**	**234**	**375**	**2,702**	**126**	**3,582**

Accounting principles for the consolidated financial statements

GENERAL COMPANY INFORMATION

The financial statements were prepared and issued for publication by the Executive Board on 6 March 2015 and will be presented to the General Meeting of Shareholders for adoption on 23 April 2015. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank is established in The Hague, the Netherlands, and has no branch offices.

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

The consolidated financial statements are prepared on the basis of the going-concern principle. The balance sheet items are carried at amortised cost, with the exception of the following balance sheet items: Financial assets at fair value through the income statement, Financial assets available-for-sale, Other financial assets, Financial liabilities at fair value through the income statement, and Other financial liabilities. These balance sheet items are recognised at fair value. The balance sheet item Investments in associates and joint ventures is stated according to the equity method. The balance sheet item Property and equipment is stated at cost less accumulated depreciation. All amounts in the consolidated financial statements are presented in millions of euros, unless stated otherwise. The euro is the functional and reporting currency used by BNG Bank. Income is recognised insofar as it is likely that the economic benefits will accrue to BNG Bank and the income can be reliably determined. Expenses are allocated to the period in which the services were provided or to the related income counterbalancing these expenses.

ACCOUNTING PRINCIPLES FOR CONSOLIDATION

Each year, BNG Bank prepares consolidated financial statements for the parent company and its subsidiaries. The financial statements of the parent company and its subsidiaries which are used to prepare the consolidated financial statements are drawn up at the same reporting date, and are based on uniform accounting principles.
All intra-group transactions and balances, including income, expenses and dividends, have been fully eliminated in the consolidated financial statements.
The consolidated financial statements comprise all subsidiaries over which BNG Bank has control. Control exists if BNG Bank is directly or indirectly exposed through group companies or is entitled to variable returns due to its involvement and is able to influence these returns by exercising control over the activities of an entity that determines BNG Bank's returns. Control is presumed to exist if the share of existing voting or other rights, taking account of various contractual restrictions and potential voting or other rights, give the right and power to control the activities which significantly affect BNG Bank's returns. This equally applies in the event BNG Bank does not hold the majority of these (current and potential) rights. Group companies are consolidated in full from the date control has been obtained until such time as control ceases to exist or all related risks and benefits have been assigned to third parties.
In determining whether BNG Bank has control over investment funds in which it holds units or shares, the financial interests held for BNG Bank's own account as a participant, as well as its role – or that of its subsidiaries – as a fund manager are taken into consideration. The reporting periods of subsidiaries included in the consolidation coincide with those of BNG Bank. Appendix A contains a complete list of BNG Bank's consolidated subsidiaries.

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 on their performance, although it does not have control. These entities are structured so as to ensure that 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 act as a sponsor in these non-consolidated structured entities.

THE USE OF ESTIMATES AND METHODS

Where necessary, the amounts disclosed in this report are based on management estimates and assumptions. The most important estimates relate to the fair value measurement of financial instruments for which there is no active market. Estimates are also used in determining impairments (including the incurred loss provision), deferred taxes and the employee benefits provision. BNG Bank uses generally accepted valuation models to measure the fair value of financial instruments for which there is no active market. The results of these models are based on various assumptions, including the discount rate and the future expected cash flows. Differences in the assumptions may have an effect on the reported values. BNG Bank periodically evaluates the estimates and assumptions it applies. Any revisions are reported in the year in which the estimate is revised and are also recognised in the estimates for future years. In response to the Asset Quality Review (AQR), in 2014 the bank revised the estimates regarding the valuation of a limited number of structured interest-bearing securities. For further information, please refer to note 20 to the consolidated financial statements.

ACCOUNTING PRINCIPLES FOR AND PRESENTATION OF COMPARATIVE FIGURES

The comparative figures are prepared in accordance with the same accounting principles as the 2014 consolidated financial statements.

APPLICABLE LAWS AND REGULATIONS

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

BNG Bank has applied the new, mandatory IFRS standards, amendments and interpretations stated below, as issued by the IASB and adopted by the European Union effective 1 January 2014, to its 2014 financial statements. The application thereof has had an impact on the explanatory notes in the 2014 financial statements. The relevant standards, amendments and interpretations, applied with retroactive effect, are as follows:

- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities: Clarification of the conditions on which netting may take place, for central clearing in particular. BNG Bank does not yet apply central clearing. This amendment has no consequences for BNG Bank's equity and result in 2014.
- Amendment to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets: This relates to additional disclosures in the event a non-financial asset is impaired. BNG Bank neither has goodwill nor intangible fixed assets on the balance sheet. This amendment does not apply to BNG Bank.

- Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting: When central clearing is used a hedge relationship may in certain circumstances continue to exist. BNG Bank does not yet apply central clearing. This amendment has no consequences for BNG Bank's equity and result in 2014.
- IFRS 10 Consolidated Financial Statements: This standard provides a new definition for 'control' and supersedes IAS 27 and SIC-12. After assessing its investments in participating interests and investment funds, BNG Bank concluded that IFRS 10 has no material consequences for its consolidation base, its result and its equity.
- IFRS 11 Joint Arrangements: This standard supersedes IAS 31 and SIC-13 and defines the valuation and determination of the nature of joint arrangements identified as 'joint ventures' and 'joint operations'. Proportional consolidation is no longer permitted. In the case of joint operations assets, liabilities, expenses and the share in the joint operation must be recorded in the consolidated financial statements. In the case of joint ventures the equity method must be applied. The bank has assessed the new joint control model and concluded that its existing joint arrangements comply with the requirements for a joint venture. Since BNG Bank already measured its investments in joint ventures according to the equity method, there will be no consequences for its result and equity in 2014.
- IFRS 12 Disclosure of Interests in Other Entities: This standard concerns the consolidated financial statements and provides integrated disclosure requirements for subsidiaries, consolidated structured entities, non-consolidated subsidiaries if the parent company is an investment entity, investments in associates, joint arrangements and interests in non-consolidated structured entities. The disclosure requirements under IAS 27, SIC-12, IAS 28, IAS 31 and SIC-13 have now been incorporated under this standard. These disclosure requirements are not significant for BNG Bank. They concern (the expansion of) the summarised financial and qualitative information on BNG Bank's subsidiaries and funds. These disclosures have been included in the 2014 financial statements.
- Transition Guide IFRS 10, 11 and 12 (Amendment): Apart from a number of exemptions, the transition to IFRS 10, 11 and 12 was applied retrospectively to the extent applicable to the 2014 financial statements.
- IAS 27 Separate Financial Statements: Following the implementation of IFRS 10, IAS 27 only applies to the company financial statements. All of the bank's subsidiaries, associates and joint ventures meet this standard. In accordance with the standard, BNG Bank measures these entities at cost. Dividends are recognised in the result at the moment the distribution decision has been made. No new disclosure requirements have been imposed. This standard has

no impact on the equity, result and disclosures in the company financial statements of the bank.
- IAS 28 Investments in Associates and Joint Ventures: This standard applies to the consolidated financial statements. Associates which comply with this standard and joint ventures which meet the IFRS 11 standard must be stated in accordance with the equity method. All of the bank's associates and joint ventures meet this new standard. BNG Bank already recognises these entities in accordance with the equity method. This standard has no consequences for BNG Bank's equity and result.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities: Pursuant to these amendments, investment entities must not consolidate investments in subsidiaries but carry them as equity instruments at fair value, with value changes recognised through the income statement. BNG Bank and its subsidiary BNG Vermogensbeheer are not investment institutions. This amendment does not apply to BNG Bank.
- IFRIC 21 – Interpretation Levies: This interpretation provides a further explanation of recording and valuing levies recognised on the basis of IAS 37. No detailed disclosures are required. For the bank, this interpretation relates to the crisis levy. The bank already recognises this levy in accordance with IAS 37 and IFRIC 21.

BNG Bank decided against the early application of the new or amended standards and interpretations issued by the IASB – irrespective of whether adopted by the EU – whose application is mandatory for the financial years commencing on or after 1 January 2015. Early application of these new standards and interpretations might have had significant implications for the 2014 financial statements. BNG Bank is currently examining the possible consequences. This concerns the following standards relevant to BNG Bank and not yet adopted by the EU:
- IAS 1 Amendment Disclosure Initiative: This amendment was published in order to show companies how to increase the use of professional judgment in selecting the information to be disclosed and how to disclose it in the financial statements. The amendment will be effective from 1 January 2016. Its impact on BNG Bank's financial statements is expected to be limited.
- IAS 27 Amendment Equity method in separate financial statements: This amendment is to be applied retroactively and allows companies to recognise investments in participating interests (subsidiaries, joint ventures and associates) in the company financial statements in accordance with the equity method as explained in IAS 28. Pursuant to IAS 27, the bank recognises all its investments in participating interests in the company financial statements at cost. This leads to a difference in equity compared with the

consolidated financial statements. In addition, there is a difference in the accounting method for dividends. At the time of receipt, dividends are recognised in the income statement in the Results from participating interests item. The bank is currently examining this option. Its application has consequences for the equity of the bank in the company financial statements. The amendment will be effective from 1 January 2016.

- Improvements to IFRSs 2012-2014 cycle: The retrospective improvements will have few consequences for the bank's financial statements. The improvements will be effective from 1 January 2016.
- IFRS 15 Revenue from Contracts with Customers issued: IFRS 15 replaces a number of standards and interpretations concerning revenue recognition and applies to contracts which are not within the scope of IAS 39 or IFRS 9. The standard will be effective from 1 January 2017. IFRS 15 provides a 5-step model for determining whether revenues must be recognised and if so, how. The standard offers a choice between full or partial retrospective application. The bank is currently examining whether certain fees comply with this new standard. Its application will have consequences for the result, equity and explanatory notes of the bank.
- IFRS 9 Financial Instruments: On 24 July 2014, the IASB published the final version of this standard. The standard has three components: 'Classification and measurement', 'Impairment (expected credit loss model)' and 'General hedge accounting'. It must be applied partly retrospectively and partly prospectively. IFRS 9 will replace standard IAS 39 Financial Instruments: Recognition and Measurement almost in its entirety, with the exception of the section on macro hedge accounting. The standard will be effective from 1 January 2018. BNG Bank is examining the implications of this new standard and does not rule out the possibility that its application will have a significant impact on the equity, results and explanatory notes.

SEGMENTED INFORMATION

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the price (not adjusted for transaction costs) which, regardless of the company's intention or capability, would be received if an asset was sold, or the price that would be paid if a liability was transferred in an orderly transaction between market participants as at the measurement date under the current market conditions. The point of departure is that the valuation must be viewed from the perspective of market parties, whereby only the specific characteristics and limitations of the financial instrument may be taken into consideration. Fair value is based on quoted market prices in active markets or, if unavailable, on 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 provisions 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. 'Level 3' valuations are based in part on assumptions that are not supported by market data.

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

IMPAIRMENTS

Impairments include the impairments of financial and non-financial fixed assets. BNG Bank recognises the changes in the incurred loss provision (Amounts due from banks and Loans and advances), impairments of instruments in Financial assets available-for-sale, and impairments of associates and joint ventures and impairments of non-financial fixed assets in the Impairments item. Impairments are recognised in the financial statements if the carrying amount of a financial or non-financial asset or the cash flow generating unit to which the financial or non-financial asset pertains exceeds the estimated realisable value. If the financial or non-financial asset was provided against collateral, the proceeds minus costs from the sale of that collateral are taken into account in calculating future cash flows. If irrecoverable financial or non-financial assets generate cash flows even after having been written down, these cash flows are recognised directly in the income statement.

IMPAIRMENT OF FINANCIAL ASSETS

At the balance sheet date, all financial assets are reviewed as to whether there are objective indicators that indicate impairment. A financial asset is subject to impairment if objective indications exist that one or more events after initial recognition had a reliably estimated negative effect on expected future cash flows from that asset. BNG Bank establishes objective indicators in the event of a major change in market conditions, for example in share prices and exchange rates, interest rates, degree of market liquidity, the creditworthiness of counterparties and the chance of default (in terms of amount and timeliness) of the cash flows to be received. Impairments

concern two groups of financial assets of BNG Bank:
- Financial assets carried at amortised cost;
- Financial assets carried at fair value, with value changes recognised through equity (revaluation reserve for financial assets available-for-sale).

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

FINANCIAL ASSETS CARRIED AT AMORTISED COST

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

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

Loans and advances for which no objective indication of impairment exists are included in the collective assessment of the so-called Incurred But Not Reported loss model (IBNR). This portfolio method considers the off-balance exposures as well as the credit exposures. Important parameters in calculating the IBNR are the EAD (Exposure at Default), PD (Probability of Default) and LGD (Loss Given Default). In 2011 the method for determining the level of the IBNR incurred loss provision was changed. The new method seeks to align the outcome of the internal rating models and the associated chance of a loss. As a result, the bank is considerably less dependent on management estimates when determining the level of this provision.

FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH EQUITY

The impairments concern two groups of BNG Bank's financial assets carried at fair value through equity:
- Investments in equity instruments;
- Investments in debt instruments.

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

The book value of BNG Bank's non-financial assets (property and equipment, investments in associates and joint ventures), with the exception of deferred tax assets, is assessed twice a year in order to determine whether there are objective indications 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). The goodwill included in a participating interest is not considered separately in the impairment assessment, but is incorporated in the total book value.

The realisable value of an asset or cash flow generating unit is equal to the higher of the value in use, or the fair value minus selling costs. In determining the value in use, the present value of the estimated future cash flows is calculated using a discount rate before tax which reflects both the current market appraisals of the time value of money and the specific risks relating to the asset. Impairments 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).

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

BALANCE SHEET NETTING

Assets and liabilities are only netted on the balance sheet if and insofar as it is certain that the net and simultaneous settlement of the amount receivable and the amount payable can be legally enforced, and there is a distinct intention to settle either the net amount as such, or both items simultaneously.

FOREIGN CURRENCY

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

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

RECOGNITION AND ACCOUNTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognised on a transaction basis. This means they are recognised from the moment the bank is entitled to the benefits or is liable for the obligations arising from the contractual provisions of the financial instrument. This includes both traditional financial instruments (loans, interest-bearing securities and debt securities) and derivatives.

Financial assets and liabilities are initially recognised at fair value plus the transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability, with the exception of the transactions recognised at fair value and the results recognised through the income statement. The transactions included in the latter balance sheet item are measured at fair value without adding the transaction costs. After initial recognition, financial assets and liabilities are measured at either amortised cost or fair value, depending on the classification of the transaction. In addition to the notional amount, the amortised cost (amortisation value) consists of accrued interest, settled transaction costs and/or premiums or discounts distributed in accordance with the effective interest method over the interest rate maturity of the transaction. At contract level, financial derivatives are stated as assets (positive fair value) or liabilities (negative fair value). Fair value changes of financial derivatives are recognised in the income statement in full.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

TRANSFER OF FINANCIAL ASSETS

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

RECOGNITION AND ACCOUNTING OF DERIVATIVES

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

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

EMBEDDED DERIVATIVES

Embedded derivatives are valued separately if the following conditions have been met:

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

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

HEDGE ACCOUNTING

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

Hedge accounting is only applied when formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between them and the objective of the hedge. Hedge documentation should demonstrate that the hedge is expected to be effective and the way in which effectiveness is determined.

Effectiveness means that, during the reporting period, there are opposing risks between the hedging instrument and the hedged item, which are within the limits defined by IAS 39 (80-125%). It should furthermore be demonstrated that the hedge will remain effective for the remaining term. The ineffective portion of the hedge relationship is recognised directly in the Result on financial transactions item of the income statement.

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.

FAIR VALUE HEDGE ACCOUNTING

BNG Bank applies two types of fair value hedge accounting: micro-hedging and portfolio hedging. Micro-hedging is applied to individual transactions involved in an economic hedge relationship to offset interest rate risks. In the case of micro-hedging, there is an apparent one-on-one relationship between the hedged item and the hedging instrument. BNG Bank applies micro-hedging to (a large part of) the financial obligations also stated under the Funds entrusted and

Debt securities item as well as to large portions of the (highly) liquid assets in the Financial assets-available-for sale item.

Portfolio hedging concerns a group of transactions that are hedged for interest rate risk using several derivatives. BNG Bank applies portfolio hedging to the majority of loans and advances granted. There is no relationship between individual hedged items and hedging instruments, but it is shown at the portfolio level that the derivatives involved offset the fair value changes in the related assets arising from interest rate movements. Due to the lack of a direct relationship between the assets and the derivatives used for hedging, the fair value adjustment – unlike the micro-hedging situation – is recognised as a single line item in the Other financial assets balance sheet item.

CASH FLOW HEDGE ACCOUNTING

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

For a detailed description of hedging risks using derivatives, please refer to note 32 to the consolidated financial statements.

CASH AND BALANCES WITH THE CENTRAL BANKS

This item comprises all legal tender as well as cash balances and deposits held with the Dutch central bank and the European Central Bank (ECB).

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

These asset items include receivables (including reverse repurchase transactions) held for purposes other than trading, from both banks and clients, which are carried at amortised cost. In addition, interest-bearing securities (MTNs and bonds) are partly included in these items, insofar as they are not traded on an active market. Amounts due from banks and Loans and advances are recognised net of the incurred loss provision. For the accounting principles concerning the incurred loss provision, please refer to the Impairments section.

In 2008 a number of Financial assets available-for-sale were reclassified and transferred to the Amounts due from banks item and the Loans and advances item. After reclassification, these assets were initially recognised at fair value as at 1 July 2008. The difference between the fair value and the redemption value as at 1 July 2008 is amortised over the remaining terms of the individual contracts.

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

These balance sheet items include derivatives that do not qualify for fair value hedge accounting in conformity with the conditions set out in IAS 39. Furthermore, BNG Bank occasionally uses the option to designate individual assets and liabilities such as loans and interest-bearing securities at fair value, with full result recognition through the income statement. Transactions are designated at fair value in a number of specific cases if:

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

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

OTHER FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

These balance sheet items include the market value of derivatives involved in a hedge accounting relationship. In addition, the Other financial assets item includes portfolio hedging value adjustments. These value adjustments refer to the effective portion of changes in market value resulting from hedging the interest rate risk in assets at the portfolio level.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

The fair value of participating interests for which no market quotation is available is determined by means of valuation methods, such as the net present value method or the visible net asset value method, from which the shareholder value can be derived. If equity instruments are not quoted on an active market and the fair value cannot be reliably determined, the instrument is recognised at cost.

If the interest-bearing securities are involved in a fair value hedge accounting relationship, the effective portion of the hedge is accounted for in the result, and not in equity. The interest result (interest, premiums and discounts) amortised on the basis of the effective interest method and any currency revaluation are recognised directly in the income statement. In the event that interest-bearing securities and participating interests are sold, the cumulative fair value movement is deducted from equity and recognised in the Result on financial transactions item of the income statement. For the impairment accounting principles, please refer to the Impairments section.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are recognised pro rata in accordance with the equity method. Associates are companies over which BNG Bank has significant influence on operational and financial policy but no control. In general, significant influence is assumed when BNG Bank holds between 20 to 50% of the shares or voting rights. Joint ventures are joint arrangements 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 insofar as 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 notes 40 and 41 respectively of the consolidated financial statements. For the impairment accounting principles, please refer to the Impairments section.

PROPERTY AND EQUIPMENT

All property and equipment owned by the bank, such as buildings and durable installations, are valued at cost less accumulated depreciation, taking into account any accumulated impairment losses. The depreciation period is determined based on the estimated useful life of the assets. The estimated useful life and residual value are reviewed annually. Depreciation is calculated on a straight-line basis and charged to the income statement. Land is not depreciated. Impairments are recognised in the income statement. For the impairment accounting principles, please refer to the Impairments section.

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

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

EMPLOYEE BENEFITS

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 obligations consist of payment of the contribution determined by the pension fund. The pension fund determines the contribution each year based on the information contained in its own dataset, taking account of the parameters and requirements specified by the regulatory authority.
The obligation to pay a contribution takes effect when becoming a pension fund member in the relevant year, and not from membership in previous years.
The employer's share of the pension contribution and any supplementary amounts are charged to the result in the year to which the contribution relates.

OTHER EMPLOYEE BENEFITS

Other employee benefits are classified as defined benefit plans for which separate provisions have been formed. These other employee benefits relate to the continued granting of interest rate discounts on mortgage loans for the benefit of both active and retired BNG Bank employees. The level of the provision is determined on the basis of calculations made every two years by independent actuarial experts, using the Projected Unit Credit Method (PUCM). The provision associated with the mortgage interest rate discount is stated under 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. The Other employee benefits item also includes a provision for a vitality scheme.
The vitality discount is recognised as an amendment to the existing CLA and therefore classified as a defined benefit plan. Amendments to a defined benefit plan are included initially through the income statement. This also applies subsequently to the revaluations arising from actuarial results.

TAXATION

The tax amount is calculated on the basis of the statutory tax rates and the tax legislation in force. Deferred tax assets and liabilities are recognised as temporary differences between the carrying amounts and the tax bases of assets and liabilities. These deferred tax assets and liabilities are calculated on the basis of current tax rates relating to the periods in which they are expected to be 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. Deferred tax assets and deferred tax liabilities are both carried at nominal value. All deferred tax assets and liabilities are stated in the accounts of the parent company of the fiscal unit. Tax assets and liabilities, both current and deferred, are netted if they concern the same tax authority and the same type of tax and netting of these assets and liabilities is permitted by law. Group companies within the fiscal unit apply the determined tax rate.

EQUITY

The balance sheet is drawn up before profit appropriation. This means that the total net result for the financial year is presented in equity.

Equity includes a revaluation reserve in which the unrealised fair value changes arising from Financial assets available-for-sale, net of taxes, are recognised. This revaluation reserve also includes the changes in fair value net of taxes recognised until 1 July 2008, relating to assets reclassified in 2008 and transferred from Financial assets available-for-sale to Amounts due from banks and Loans and advances. This portion of the revaluation reserve is amortised over the remaining maturity period of the reclassified assets and recognised under Interest result in the income statement. In the event of an actual sale subject to the FIFO (First in, First out) principle, the cumulative revaluation results are recognised in the income statement. The effective portion of fair value changes in transactions involved in hedge accounting is either credited or charged to the income statement during the period in which the transactions are involved in a hedge accounting relationship.

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

INTEREST INCOME AND INTEREST EXPENSES

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

RESULTS FROM ASSOCIATES AND JOINT VENTURES

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

COMMISSION INCOME AND COMMISSION EXPENSES

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

RESULT ON FINANCIAL TRANSACTIONS

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

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

OTHER RESULTS

Other results include the results not relating to BNG Bank's core operational activities.

DEPRECIATION

Please refer to the Property and equipment section.

BANK LEVY

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

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income presents the aggregate net result of the reporting period and the direct changes in equity, net of taxes where applicable. 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 (recycled), and items that can never be recycled.

CASH FLOW STATEMENT

The 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 the central banks, and overnight interbank loans. These funds have less than three months' maturity from the date of acquisition, are readily convertible into a known amount of cash and are subject to a negligible risk of changes in value.

The changes in loans and advances, funds entrusted, derivatives and amounts due from and due to banks are included in the cash flow from operating activities. Investing activities comprise purchases, sales and redemptions in the investment portfolio as well as purchases and sales of associates and joint ventures and property and equipment. Drawdowns and repayments of subordinated debts and debt securities, as well as the dividend paid, are presented as financing activities.

STATEMENT OF CHANGES IN EQUITY

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

Notes to the consolidated financial statements

Amounts in millions of euros

1 CASH AND BALANCES WITH THE CENTRAL BANKS

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

	31/12/2014	31/12/2013
Current account balances held at central banks (due on demand)	2,241	1,467
Overnight deposits with the central banks (due on demand)	–	–
Short-term deposits with the central banks (not due on demand)	–	–
TOTAL	2,241	1,467

93

2 AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

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

	AMOUNTS DUE FROM BANKS		LOANS AND ADVANCES		TOTAL	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Short-term loans and current accounts	2	2	4,470	5,209	4,472	5,211
Reverse repurchase transactions	501	2,009	501	501	1,002	2,510
Cash collateral	10,090	5,983	–	–	10,090	5,983
Long-term lending	12	17	83,456	83,529	83,468	83,546
Interest-bearing securities	–	–	579	619	579	619
Reclassified available-for-sale transactions	441	498	1,779	2,259	2,220	2,757
Incurred loss provision	–	–	−53	−43	−53	−43
TOTAL	**11,046**	**8,509**	**90,732**	**92,074**	**101,778**	**100,583**

	2014	2013
MOVEMENT IN THE INCURRED LOSS PROVISION		
Opening balance	−43	−39
Additions during the financial year	−16	−13
Release during the financial year	6	2
Withdrawals during the financial year	0	7
CLOSING BALANCE	**−53**	**−43**

93 133 139 179 180 248 275 281

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2014	31/12/2013
Derivatives	1,522	1,073
Loans and advances	946	915
Securities	1,779	1,542
TOTAL	**4,247**	**3,530**

No new loans and advances or securities were included in this item in 2014. The increase in fair value is attributable primarily to the sharp fall in market interest rates. The total redemption value of the loans and advances and securities at year-end 2014 is EUR 1,956 million (2013: EUR 2,007 million).

4 OTHER FINANCIAL ASSETS

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

93 ◀ 248 ◀

	31/12/2014	31/12/2013
Derivatives involved in a portfolio hedge accounting relationship	5,172	3,348
Derivatives involved in a micro hedge accounting relationship	10,106	4,925
Market value adjustments of assets hedged at portfolio level	16,044	7,601
TOTAL	31,322	15,874

5

FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

	31/12/2014	31/12/2013
Government	8,541	6,415
Supranational organisations	1,212	899
Credit institutions	1,565	1,472
Other financial institutions	1,856	284
Non-financial institutions	417	428
Investments in participating interests	102	109
TOTAL	13,693	9,607

TRANSFERS WITHOUT DERECOGNITION

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

93 133 248 275

6 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INTEREST		EQUITY METHOD VALUE	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	2	2
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	0	0
		SUBTOTAL	**2**	**2**
JOINT VENTURES				
BNG Gebiedsontwikkeling BV, participating interests	see note 40		52	51
		TOTAL	**54**	**53**

For a description of the associates and joint ventures and a summary of financial information, please refer to notes 40 and 41 respectively.

93 246 247 276

7 PROPERTY AND EQUIPMENT

The movement in this balance sheet item is as follows:

	PROPERTY		EQUIPMENT		TOTAL	
	2014	2013	2014	2013	2014	2013
HISTORICAL COST						
Value as at 1 January	47	47	13	12	60	59
Investments	0	0	1	1	1	1
Disposals	–	–	–	–	–	–
Value as at 31 December	**47**	**47**	**14**	**13**	**61**	**60**
DEPRECIATION						
Accumulated depreciation as at 1 January	32	31	11	10	43	41
Depreciation during the year	1	1	1	1	2	2
Accumulated depreciation as at 31 December	**33**	**32**	**12**	**11**	**45**	**43**
BOOK VALUE AS AT 31 DECEMBER	**14**	**15**	**2**	**2**	**16**	**17**

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

93 138 280

8 OTHER ASSETS AND OTHER LIABILITIES

	31/12/2014	31/12/2013
OTHER ASSETS		
Current tax asset	58	–
Various receivables	96	52
TOTAL OTHER ASSETS	**154**	**52**
OTHER LIABILITIES		
Current tax liability	–	11
Deferred tax liability	224	196
Employee benefits provision	3	2
Other commitments	33	73
TOTAL OTHER LIABILITIES	**260**	**282**

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

The employee benefits provision concerns a provision for the interest rate discount on mortgage loans to both active and retired employees. This provision has a long-term character. With effect from 1 January 2014, a new EUR 0.7 million provision for vitality leave is included, contributing to an increase in the total provision from EUR 2 million at year-end 2013 to nearly EUR 3 million at year-end 2014.

93

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:

	2014	2013
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	3
Movements in the provision	1	−1
NET LIABILITY AS AT 31 DECEMBER	**3**	**2**

9 TAXES

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') for the period 2013 – 2014. In 2014 this agreement was extended to cover the period 2015 – 2017. The agreement applies to BNG Bank's fiscal unit. Pursuant to the agreement, all financial instruments are stated – for both reporting and tax purposes – in accordance with the IFRS principles of valuation, with the exception of transactions classified as Financial assets available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The 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:

	2014	2013
Profit before tax	179	397
Tax levied at the statutory tax rate	−45	−99
Tax adjustment from previous years	0	0
Participation exemption (write-off of associate Transdev-BNG-Connexxion Holding BV)	–	−7
Non-deductible costs (bank levy)	−8	−8
EFFECTIVE TAX IN THE CONSOLIDATED INCOME STATEMENT	**−53**	**−114**
Nominal tax rate	25.0%	25.0%
Effective tax rate	29.6%	28.8%

93 94 125

2014	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	1	–	–	1
Financial assets available-for-sale	−87	−14	–	−101
Cash flow hedge reserve	−110	−15	–	−125
Employee benefits	0	–	1	1
TOTAL	**−196**	**−29**	**1**	**−224**

2013	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	2	–	−1	1
Financial assets available-for-sale	−64	−23	–	−87
Cash flow hedge reserve	23	−133	–	−110
Employee benefits	–	–	0	0
TOTAL	**−39**	**−156**	**−1**	**−196**

10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

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

	31/12/2014	31/12/2013
Current accounts	1,725	1,826
Deposits from banks	1,207	848
Other deposits	2,151	1,208
Cash collateral	878	422
Private loans	8,407	7,087
Repurchase transactions	510	2,581
Subordinated debts	32	32
TOTAL	**14,910**	**14,004**

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2014	31/12/2013
Derivatives	1,250	1,601
Debt securities	1,455	1,442
Private interest-bearing securities	622	510
TOTAL	**3,327**	**3,553**

93

The total redemption value of the debt securities and funds entrusted at year-end 2014 is EUR 1,715 million (2013: EUR 1,652 million).

12 OTHER FINANCIAL LIABILITIES

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

	31/12/2014	31/12/2013
Derivatives involved in a portfolio hedge accounting relationship	22,297	11,795
Derivatives involved in a micro hedge accounting relationship	3,060	3,291
TOTAL	**25,357**	**15,086**

13 DEBT SECURITIES

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

	31/12/2014	31/12/2013
THIS BALANCE SHEET ITEM IS COMPRISED AS FOLLOWS:		
Bond loans	90,858	81,723
Commercial Paper	15,211	13,105
TOTAL	**106,069**	**94,828**

93

14 EQUITY

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

	31/12/2014	31/12/2013
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	234	180
Cash flow hedge reserve	375	332
Other reserves	2,702	2,490
Unappropriated profit	126	283
TOTAL	**3,582**	**3,430**

	2014	2013
Number of paid-up shares outstanding	55,690,720	55,690,720
Proposed dividend per share in euros	0.57	1.27
PROPOSED DIVIDEND		
– Primary dividend pursuant to the Articles of Association	7	7
– Proposed dividend above the primary dividend	25	64
TOTAL	**32**	**71**

93

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. There are no issued shares that are not fully paid up. 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 2014.

REVALUATION RESERVE

The revaluation reserve includes unrealised changes in fair value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. The revaluation reserve is adjusted for taxes. Upon sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. EUR 21 million (2013: EUR 13 million) of the Revaluation reserve was associated with equity instruments as at 31 December 2014.

CASH FLOW HEDGE RESERVE

The changes in the fair value of derivatives, resulting from changes in the cross-currency basis spread, are recognised in the cash flow hedge reserve. The cash flow hedge reserve is adjusted for taxes. The cash flow hedge reserve concerns a large number of derivatives and hedged items with different maturities. The maximum remaining maturity runs up to 40 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting.

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves.

UNAPPROPRIATED PROFIT

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

15 INTEREST INCOME

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

	2014	2013
Financial assets at fair value through the income statement	60	62
Derivatives not involved in a hedge accounting relationship	123	260
Derivatives involved in a fair value hedge accounting relationship	−2,202	−2,181
Financial assets available-for-sale not involved in a hedge accounting relationship	6	7
Financial assets involved in a hedge accounting relationship	3,070	3,201
Financial assets at amortised cost	163	164
Other interest income	38	1
TOTAL	**1,258**	**1,514**

In the interest income for 2014, EUR 0.2 million (2013: EUR 1.3 million) in interest revenues has been recognised for financial assets, concerning Loans and advances (note 2), and Financial assets available-for-sale (note 5), which were subject to impairment.

94

16 INTEREST EXPENSES

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

	2014	2013
Financial liabilities at fair value through the income statement	71	81
Derivatives not involved in a hedge accounting relationship	80	177
Derivatives involved in a hedge accounting relationship	−1,810	−1,995
Financial liabilities involved in a hedge accounting relationship	2,223	2,368
Financial liabilities at amortised cost	245	353
Other interest expenses	5	0
TOTAL	**814**	**984**

17 RESULTS FROM ASSOCIATES AND JOINT VENTURES

This item includes the results from associates and joint ventures.

	2014	2013
Associates	0	0
Joint ventures	1	−1
TOTAL	**1**	**−1**

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

94

18 COMMISSION INCOME

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

	2014	2013
BREAKDOWN OF THE COMMISSION INCOME:		
– Income from loans and credit facilities	19	12
– Income from payment services	11	10
– Income from fiduciary activities	5	8
TOTAL	35	30

19 COMMISSION EXPENSES

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

20 RESULT ON FINANCIAL TRANSACTIONS

This item relates to realised and unrealised results from value changes of financial instruments measured at fair value, with changes in fair value recognised through the income statement. These are offset nearly entirely by changes in the market value of the relating derivatives. This item also includes the results from sales of financial assets available-for-sale. In addition, this item includes the changes in the market value adjustments due to counterparty credit risk (Credit Valuation Adjustment, CVA) and adjustments for own credit risk (Debit Valuation Adjustment, DVA) for all derivative transactions with clients and financial counterparties without a daily or with a limited exchange of collateral.

94 101

	2014	2013
MARKET VALUE CHANGES OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	−112	−12
– Derivatives without daily exchange of collateral (CVA/DVA)	−51	3
– Structured loans	3	19
	−160	**10**
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	9,785	−4,147
– Financial liabilities involved in a micro fair value hedge accounting relationship	−6,683	6,164
– Derivatives involved in a hedge accounting relationship	−3,065	−2,058
	37	**−41**
RESULT OF THE TRANSITION TO OIS VALUATION OF DERIVATIVES WITH DAILY EXCHANGE OF COLLATERAL	–	−27
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	12	26
OTHER MARKET VALUE CHANGES	−76	27
TOTAL	**−187**	**−5**

The result on financial transactions in 2014 was negatively influenced by unrealised results, arising from, among other things:

- increased credit and liquidity risk spreads of a number of interest-bearing securities in the Financial assets at fair value through the income statement item; and
- the use of more conservative parameters in the model-based valuation of structured interest-bearing securities in response to the results of the ECB's balance sheet test; and
- the increase in counterparty risk for derivatives and the fact that, with effect from 2014, the CVA and DVA are taken into account in determining the fair value of all derivative transactions; and
- revaluations of derivatives not involved in a hedge accounting relationship.

The result on financial transactions was positively influenced by the realised results on the sale of interest-bearing securities.

21 OTHER INCOME

	2014	2013
THE OTHER INCOME CONSISTS OF:		
– Income from consultancy services	4	3
TOTAL	4	3

94

22 STAFF COSTS

	2014	2013
STAFF COSTS CONSIST OF:		
– Wages and salaries	26	25
– Pension costs	4	4
– Social security costs	2	2
– Addition to provisions	0	0
– Other staff costs	6	5
TOTAL	**38**	**36**

The variable remuneration of individual staff members in 2014 amounted to a maximum of 25% of their fixed salary (2013: 35%). For 93% of staff members the percentage in 2014 was a maximum of 12.5% (2013: 93% and 12.5% respectively).

23 OTHER ADMINISTRATIVE EXPENSES

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

24 DEPRECIATION

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

94

25 IMPAIRMENTS

The impairments in 2014 amount to EUR 15 million (2013: EUR 58 million).

	2014	2013
THE IMPAIRMENTS CONSIST OF:		
– Addition to the incurred loss provision for loans and advances	16	13
– Release from the incurred loss provision for loans and advances	−6	−2
– Impairment of financial assets available-for-sale	–	21
– Impairment of associates and joint ventures	5	26
TOTAL	15	58

The movements in the incurred loss provision are included in the Loans and advances item (note 2). The impairments in 2014 were caused by negative developments in individual loans and advances of the bank and a number of participating interests of BNG Gebiedsontwikkeling (joint ventures).

26 BANK LEVY

The Bank Tax Act entered into force on 1 October 2012. The expenses concerning the bank levy are not deductible for corporate income tax purposes. As a consequence, the effective tax burden exceeds the nominal tax burden. BNG Bank is due to pay the bank levy on 1 October of every year, which for 2014 amounts to EUR 30 million (2013: EUR 33 million). Based on the methodology and assumptions laid down in the Act, the bank levy owed for 2015 is expected to be EUR 36 million.

94 281

	2014	2013
THE BANK LEVY OWED WAS CALCULATED AS FOLLOWS:	BASIS 2013	BASIS 2012
Balance sheet total	131,183	142,228
Less: Regulatory capital (Basel II)	2,811	2,576
Less: Deposits covered by the deposit-guarantee scheme	43	42
Less: Liabilities relating to insurance activities	–	–
TAXABLE BASE	**128,329**	**139,610**
Less: Efficiency exemption	20,000	20,000
TAXABLE AMOUNT	**108,329**	**119,610**
Total sum of debts with a maturity of less than 1 year, according to the balance sheet	31,751	36,621
Total sum of all debts, according to the balance sheet	127,753	139,477
Bank levy on short-term debt component (0.044% of taxable amount)	12	14
Bank levy on long-term debt component (0.022% of taxable amount)	18	19
TOTAL	**30**	**33**

27 FEES OF EXTERNAL AUDITORS

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

28 BREAKDOWN OF BALANCE SHEET VALUE BY CATEGORY AND BY REMAINING CONTRACTUAL MATURITY

BALANCE SHEET VALUES BY CATEGORY

	31/12/2014						
	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	TOTAL
– Cash and balances with the central banks						2,241	2,241
– Amounts due from banks					12	11,034	11,046
– Financial assets at fair value through the income statement	2,725	1,522					4,247
– Other financial assets			15,278		16,044		31,322
– Financial assets available-for-sale				3,270	10,423		13,693
– Loans and advances					73,155	17,577	90,732
TOTAL ASSETS	**2,725**	**1,522**	**15,278**	**3,270**	**99,634**	**30,852**	**153,281**

Continued on next page

282

Continuation of previous page	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AVAILABLE-FOR-SALE NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	31/12/2014 TOTAL
– Amounts due to banks						2,544	2,544
– Financial liabilities at fair value through the income statement	2,077	1,250					3,327
– Other financial liabilities			25,357				25,357
– Debt securities					84,415	21,654	106,069
– Funds entrusted					6,727	5,607	12,334
– Subordinated debts						32	32
TOTAL LIABILITIES	**2,077**	**1,250**	**25,357**	**–**	**91,142**	**29,837**	**149,663**

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

Continued on next page

Continuation of previous page

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

BALANCE SHEET VALUES BY REMAINING CONTRACTUAL MATURITY

	31/12/2014				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
Cash and balances with the central banks	2,241	–	–	–	2,241
Amounts due from banks	10,103	509	389	45	11,046
Financial assets at fair value through the income statement (excluding derivatives)	27	122	347	2,229	2,725
Financial assets available-for-sale	186	826	4,527	8,154	13,693
Loans and advances	7,604	9,476	36,261	37,391	90,732
TOTAL ASSETS	20,161	10,933	41,524	47,819	120,437
Amounts due to banks	2,352	192	–	–	2,544
Financial liabilities at fair value through the income statement (excluding derivatives)	10	20	490	1,585	2,105
Debt securities	12,160	22,248	47,765	23,896	106,069
Funds entrusted	3,001	1,169	2,365	5,799	12,334
Subordinated debts	1	2	5	24	32
TOTAL LIABILITIES	17,524	23,631	50,625	31,304	123,084

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

29 RECLASSIFICATION OF FINANCIAL ASSETS AVAILABLE-FOR-SALE

On 15 October 2008, the EU adopted several amendments to IAS 39 and IFRS 7 (amendments to IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure) which allow an entity to reclassify financial instruments in certain circumstances, such as illiquid markets. BNG Bank used these amendments to reclassify a part of the instruments in the Financial assets available-for-sale item and transfer them to Amounts due from banks and Loans and advances. The intention is to retain these assets for the foreseeable future. When trading in the portfolio (or parts of it) is restored, the possibility of a partial sale is not ruled out. The reclassification does not affect the realised results.

The effective interest rate of these reclassified assets, from the moment of reclassification, has a weighted average of 5.2% and ranges from 2.8% to 6.3%. In light of the fact that the assets have not been impaired, the calculation of the effective interest rate is based on the original cash flows.

BALANCE SHEET VALUE AS AT 31 DECEMBER 2014	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	13,693	15,909	−2,216
Amounts due from banks	11,046	10,605	441
Loans and advances	90,732	88,953	1,779
Equity	3,582	3,578	4
– of which revaluation reserve	234	230	4

BALANCE SHEET VALUE AS AT 31 DECEMBER 2013	WITH RECLASSIFICATION	WITHOUT RECLASSIFICATION	EFFECT OF RECLASSIFICATION
Financial assets available-for-sale	9,607	12,176	−2,569
Amounts due from banks	8,509	8,011	498
Loans and advances	92,074	89,815	2,259
Equity	3,430	3,242	188
– of which revaluation reserve	180	−8	188

	31/12/2014		31/12/2013	
	WITH RECLASSIFI-CATION	WITHOUT RECLASSIFI-CATION	WITH RECLASSIFI-CATION	WITHOUT RECLASSIFI-CATION
RECLASSIFIED ASSETS				
– Balance sheet value	2,220	2,216	2,757	2,569
– Fair value	2,216	2,216	2,569	2,569
– Unrealised market value changes in equity	−99	−103	−114	−302
– Movement in Unrealised market value changes in equity	15	199	20	40

Risk section

30 RISK SECTION

GENERAL

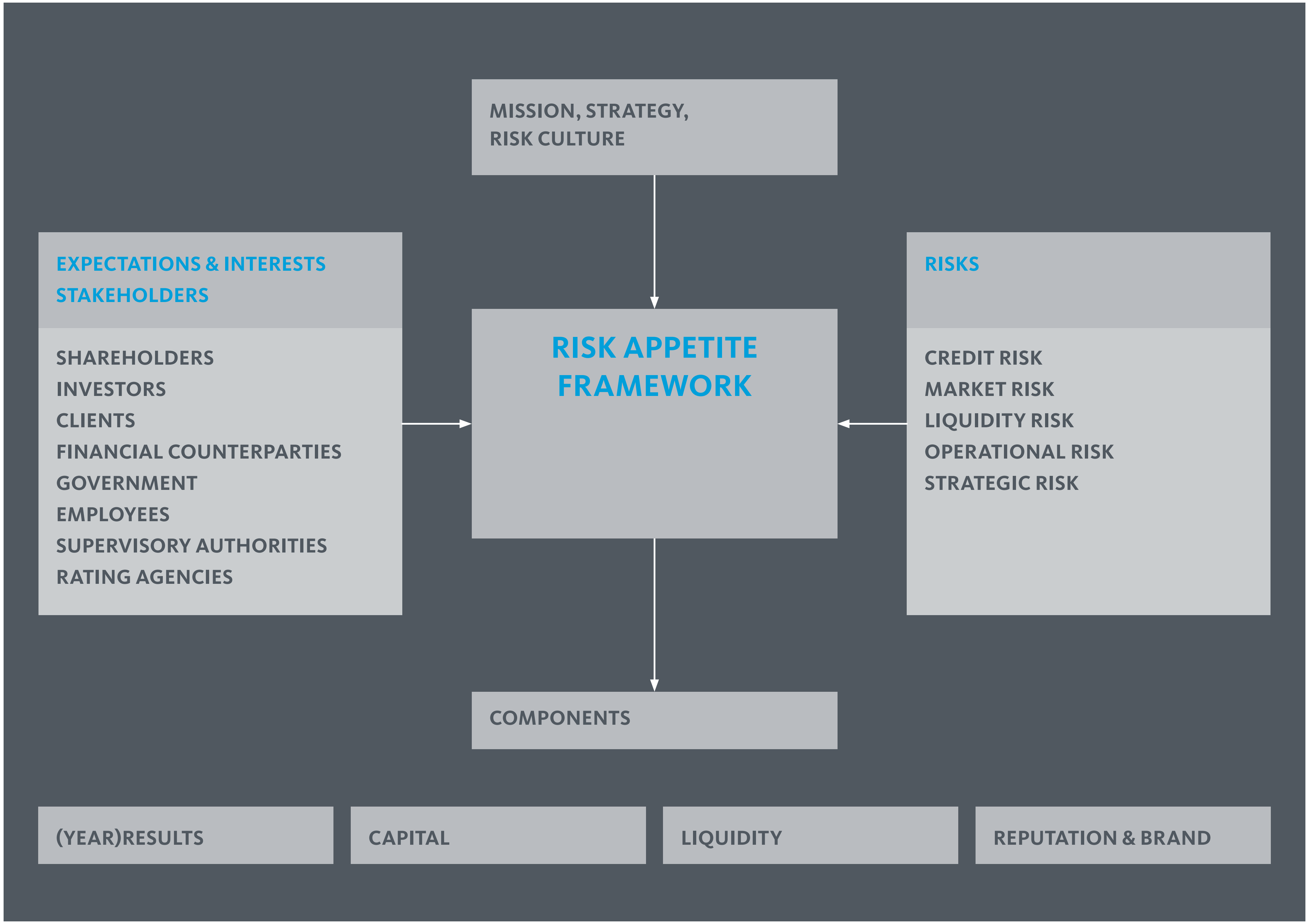
The process of accepting and controlling risks is inherent to the day-to-day operations of any bank. In order to conduct banking operations, a bank will have to accept a certain amount of credit, market, liquidity and operational risk. Although individual risks, such as market risks, can be offset, this offsetting often leads to other risks. For example, offsetting market risk may entail a risk on financial counterparties.

BNG Bank's risk management strategy is aimed at maintaining its safe risk profile, which is expressed in its high external credit ratings. For this reason, BNG Bank pursues a strict capitalisation policy with lower limits for the leverage ratio and the tier 1 ratio. In combination with the restriction on services as laid down in its Articles of Association, these limits determine the scope and sphere of activity of the bank.

The bank has prepared a risk appetite which sets out the types and degree of risk the bank is prepared to accept in order to achieve its strategic objectives and implement its business plan. The risk appetite falls within the risk capacity, which is the maximum risk level that the bank can take on without exceeding regulatory capital, liquidity

122

and operating environment limits and at which it is still able to meet its obligations towards its clients, investors, shareholders and other stakeholders. The operating environment includes such aspects as the technical infrastructure, risk management capacities and expertise.

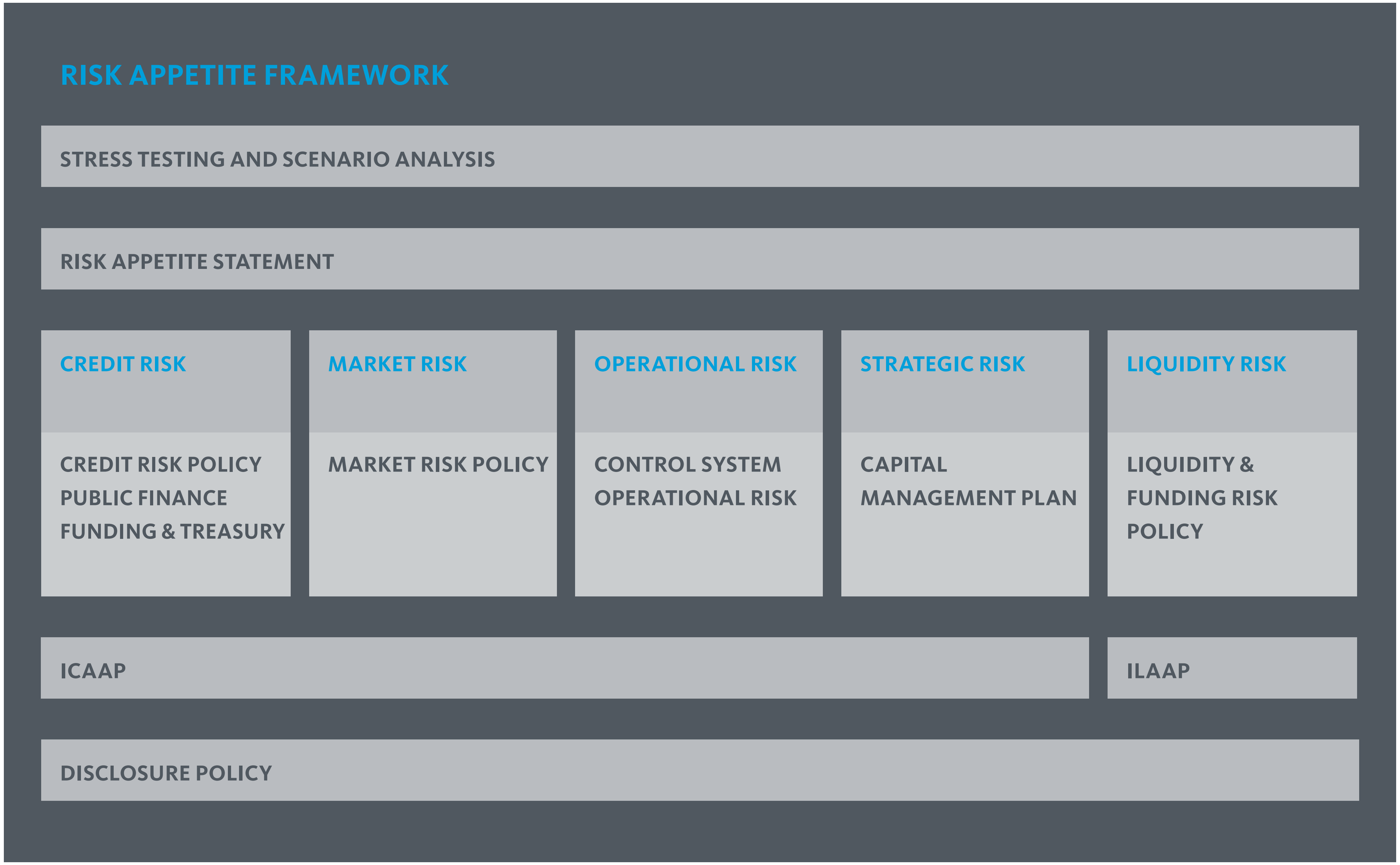


The risk appetite, which is determined by the Supervisory Board, is evaluated every year and adjusted where necessary. The risk appetite serves as a risk tolerance guideline for the various risk types and the associated control frameworks and limits. It is translated into a system of limits, targets and reference figures. Where appropriate, a policy adjustment is made in order to keep practical application aligned with the risk appetite. A monitoring programme is conducted each quarter to determine whether the bank is still within the limits of its risk appetite. In this way, the risk appetite is embedded in the organisation while its practical applicability is increased. The various directorates and departments indicate in their in-control statements and annual plans how they will ensure compliance with the risk appetite from their respective areas of responsibility. In 2014, the bank remained entirely within its risk appetite limits, except with regard to the return on equity. It should be noted that financial ratios can be monitored more effectively than less tangible matters, such as the ability to continue complying with new regulations in the future.

Risk management uses a set of reports aimed at both internal risk management and accountability for that risk management towards external stakeholders. BNG Bank applies the 'Standardised Approach' in reporting credit risk to the supervisory authority (the ECB since November 2014) and the 'Basic Indicator Approach' in reporting operational risk. In addition, the bank ensures that the reports meet increasingly strict requirements on aspects such as capital and liquidity.

ORGANISATIONAL RISK MANAGEMENT STRUCTURE

The bank has two differentiated management committees in which Executive Board members and the responsible managing directors are represented. Each committee focuses on a specific risk area. The Asset & Liability Committee (ALCO) focuses on market and liquidity risk. The policies on credit risk and operational risk are dealt with in the Management Board. In both committees, the members of the Executive Board have voting power. In addition to the above, the bank addresses strategic risks in the regular Executive Board meetings. The Executive Board periodically discusses the structure and performance of the bank's internal risk management and control systems with the Supervisory Board and the Audit & Risk Committee.



In managing its risk appetite, the bank has a risk appetite framework that distinguishes between various risk types, the relevant responsibilities and the various policy documents that describe the acceptance and management of these risks.

This framework also includes the Capital Management Policy, which originates from the ICAAP (Internal Capital Adequacy Assessment Process), the process that the bank uses to assess and control its own capital. This is regarded as an overarching policy covering all risk types, which the exception of liquidity risk, which requires a capital reserve and is covered by the ILAAP (Internal Liquidity Adequacy Assessment Process). This is the process by which an institution assesses and controls its own liquidity.

The Capital Policy and Financial Regulations Committee issues recommendations on capital policy and the allocation of capital to the bank's various business units. In addition, the committee offers advice on the introduction of new regulations in the fields of solvency and liquidity and on technical financial issues. The Management Board takes decisions that influence capital allocation and approves the ICAAP and ILAAP. The Management Board is also responsible for stress testing. This involves an assessment of the impact of stress situations on all risks – both separate risks and specific combinations of risks based on economic scenarios. The manner in which this assessment is performed is described in the Stresstesting Policy.

Decisions regarding the actual acceptance of credit risks in the form of individual credits or other exposures are made by three independently operating committees, whose decisions are based on current policy: the Credit Committee, the Financial Counterparties Committee and the Investment Committee. Each is chaired by a member of the Executive Board.
The following departments support the Executive Board in implementing risk policy:

- The Risk Control department qualifies, quantifies and monitors risks, and reports to the responsible committees. These risks consist of credit risk, market risk, liquidity risk, operational risk and other risks. The department has a supporting role regarding strategic risk. It manages the risk policy documents and the risk appetite framework.
- The Credit Risk Assessment department draws up policy proposals with respect to credit risk, while as part of the lending process it also provides independent assessments and advice on risks relating to credit and review proposals for clients and financial counterparties. The Credit Risk Assessment department is represented in the bank's Credit Committee, the Financial Counterparties Committee and the Investment Committee. This department is also responsible for the bank's special credit watch activities – namely the supervision, management and processing of problematic financing arrangements.

- The Internal Audit Department (IAD) periodically conducts operational audits in order to evaluate the structure and performance of the bank's risk management systems and assess compliance with the applicable legislation. The IAD functions as an independent entity within the bank and reports to the Executive Board. The bank also has an independent Compliance Officer charged with monitoring compliance with all relevant legislation. The duties, position and authorities of this compliance function are laid down in the BNG Bank Compliance Regulations.
- Where necessary, the Legal Affairs, Tax and Compliance department (JFC) is engaged in connection with conduct-related issues.

DEVELOPMENTS IN 2014

FINANCIAL MARKETS

Despite geopolitical unrest in various parts of the world, the financial markets were more stable than in preceding years. The FED continued to phase out its incentive scheme without causing any notable unrest. Low as they were at the beginning of 2014, interest rates proved capable of sliding yet further – especially in the euro zone. The interest on German and Dutch government bonds with a 10-year maturity reached all-time lows. Countries in southern Europe too were able to borrow at historically low rates – a clear sign that concerns about disintegration of the euro zone were rapidly decreasing. Towards the end of 2014 new concerns about Greece potentially leaving the euro zone arose, but without any notable adverse effect on the markets.

BNG Bank was able to obtain funding from the capital market at relatively stable rates throughout the year. As regards maturities, the bank was able to achieve the desired funding mix. Due to the sharp decline in market interest rates and the fall in the market value of interest rate derivatives, substantially more collateral had to be provided for financial counterparties. The existing liquidity buffers proved sufficient to absorb this increase.

BNG BANK'S RATINGS

BNG Bank's ratings are Aaa, AAA and AA+ (Moody's, Fitch and Standards & Poor's respectively): the same as those for the Dutch State. In November 2014, Standard & Poor's emphasised BNG Bank's leading role as a credit provider for the Dutch public sector, its robust capitalisation and its public sector shareholding as some of the bank's main strengths. S&P is less positive about the limited geographical spread of the bank's assets and the small variety in its sources of revenue. In addition, S&P observes that due to the small margins the bank's capital growth is slow and its results are sensitive to changes in the fair value of financial instruments. In May 2014, Moody's stated that the bank's profile for funding and liquidity was adequate despite the maturity mismatches arising from its business model. The bank's financial performance was deemed to be consistent with its public task. In April 2014, Fitsch qualified BNG Bank's business model as simple and stable, while emphasising the prudent risk management. Fitch noted that the availability of government support in the EU was falling, but assumed that the Dutch State would certainly be prepared to assist BNG Bank in the unlikely event of a capital shortage. One strong argument in favour of BNG Bank is that such assistance would serve the public interest and, as such, would not involve the bail-in of senior bond holders pursuant to the Bank Recovery and Resolution Directive. Fitch believes that the bank's exposure in GIIPS countries is high relative to the capital, but notes that the part of this exposure with ratings below investment grade is still performing.

CREDIT RISK

DEFINITIONS

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

GENERAL

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

- The Executive Board determines the relevant lending framework.
- The Credit Committee decides on all loans and advances to clients subject to solvency requirements. In some cases this authority is delegated.
- The Financial Counterparties Committee decides on limits for transactions with financial institutions.
- The Investment Committee decides on proposals for investment in interest-bearing securities.
- The Client Acceptance Committee assesses whether potential clients are suitable under the bank's Articles of Association, fit in the bank's commercial policy and whether they constitute an integrity risk.

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

COUNTERPARTY RISK

The bank is exposed to credit risk from statutory market parties and financial counterparties.

STATUTORY CLIENTS

The bank's Articles of Association limit the issue of loans and advances to parties subject to some form of government involvement. As a result, the vast majority of the loan portfolio is comprised of loans issued to and/or guaranteed by the government. No individual credit risk assessment is performed given the virtual absence of credit risk within this solvency-free portfolio. In the case of the Social Housing (WSW) and Healthcare (WfZ) guarantee funds, the credit risk assessment is carried out expressly by the guarantee fund concerned. BNG Bank carries out periodic assessments of the sectors in which it operates and of the performance of the institutions that issue the individual guarantees or suretyships. In addition, BNG Bank maintains contacts with relevant parties through a variety of channels, including conferences, seminars and bilateral talks.

Loans and advances subject to solvency requirements are preceded by an extensive creditworthiness analysis.

- The Financial Analysis department, part of the Public Finance directorate, draws up the credit proposal on the instruction of the account manager. This contains a detailed assessment of the creditworthiness of the client concerned, based in part on the bank's own internal rating model. The greater the degree of tailoring involved in a transaction, the more intensive the operational risk procedure followed. To that end, the bank has implemented a product approval process for managing the complexity for both the client and the bank.
- The Credit Risk Assessment department prepares an independent second opinion on the credit proposal.
- The intensity of the decision-making process is determined based on the proposed rating and the size of the loan. The bank's risk appetite also determines the level of maximum credit risk the bank is prepared to accept for the client in question. The credit proposal must be in accordance with this upper limit.
- The Credit Committee decides whether the credit is to be accepted or not. The Credit Committee is chaired by a member of the Executive Board and includes representation from the Public Finance directorate and the Credit Risk Assessment department. Where appropriate, the Treasury directorate may also be represented if a transaction in the Investment & Lending portfolio requires the consent of the Credit Committee. If the Credit Committee is unable to form a unanimous opinion, the decision on the proposal is escalated to the Executive Board.

Following the approval of a credit proposal and its acceptance by the client, the credit management process starts. This includes the following elements:

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

FINANCIAL COUNTERPARTIES

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

CREDIT MODELS

The bank determines creditworthiness using internally developed rating models that allow the bank to conduct credit assessments partly on the basis of objectively observable criteria. Given the 'low default' character of the loan portfolio, expert models are utilised. Models have been developed for the following sectors:

- Public housing
- Healthcare and Education.
- DBFMO (Design Build Finance Maintain Operate, project financing)
- Area development
- Financial institutions
- Energy, water, telecom, transport, logistics and the environment

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

INTERNAL RATING	DESCRIPTION
0	Loans and advances not subject to solvency requirements.
1 through 11	The credit risk is deemed acceptable. A regular annual review is performed.
12 through 13	Watch list: there is a heightened credit risk. A review takes place at least twice a year.
14 through 17	Special Management: there is a strongly heightened credit risk. At least three times a year a report on these debtors is submitted to the Executive Board.
18 through 19	Special Management: there is a strongly heightened 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.

CONCENTRATION RISK

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

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

Concentration risk also comprises the country risk. BNG Bank's loan portfolio is strongly focused on the Netherlands, which is a reason for the bank to consciously include foreign securities in its liquidity portfolio. With respect to interest-bearing securities and the lending of credits, BNG Bank exclusively deals with countries within the EU and has set an overall limit on long-term exposures in foreign countries of 15% of its balance sheet total. The bank also applies limits for individual countries, which are partly determined on the basis of external country ratings. In many cases, such foreign credit lending is directly or indirectly guaranteed by the relevant governments. The deteriorating creditworthiness of euro zone countries is increasing the country risk. This has resulted in a downward adjustment of internal limits. The bank is gradually reducing its exposure in these countries. This is mainly done by ensuring that existing exposures are not replaced by new ones once they have expired. At the end of 2014, the bank's foreign exposure (expressed in balance sheet value) totalled EUR 22.7 billion, of which EUR 13.8 billion consisted of long-term credits (2013: EUR 16.3 billion and EUR 11.2 billion respectively). This represents 9.0% of the balance sheet total (2013: 8.5%). The growth of the bank's foreign exposure was caused by investments in long-term interest-bearing securities for the liquidity portfolio and an increase in short-term collateral liabilities in connection with derivative transactions.

SETTLEMENT RISK

Exposure to settlement risks is mainly limited to transactions with financial counterparties. In addition to hedging counterparty risk, the aforementioned netting and collateral agreements serve to limit settlement risks resulting from the mutual offsetting of payments. Control measures throughout the operational process serve to further mitigate the settlement risk.

CREDIT RISK DEVELOPMENTS

In 2014 more credit subject to solvency requirements was granted than in 2013. All these lending transactions took place in the Netherlands. Exposures abroad decreased as a result of regular repayments. The Housing and Healthcare sectors showed a slight deterioration in terms of credit quality as assessed against the bank's internal credit rating. Total exposure on the balance sheet from lending subject to solvency requirements was more or less unchanged compared with 2013. The realised credit loss in 2014 was limited to EUR 0.5 million (2013: EUR 7 million).

LONG-TERM FOREIGN EXPOSURE

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

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

	31/12/2013					
	AAA	AA	A	BBB	NON-INVEST-MENT GRADE	TOTAL
Supranational institutions (EU)	175	700				875
Multilateral development banks	722					722
Austria	706		125			831
Belgium	42	609	140	144		935
Finland	500					500
France		918	40	50	78	1,086
Germany	935	40				975
Ireland				269	7	276
Italy		45	100	220	91	456
Portugal			39	54	257	350
Spain		111	495	1,184	373	2,163
Sweden					13	13
United Kingdom	55	325	293	185	84	942
United States			55			55
TOTAL	**3,135**	**2,748**	**1,287**	**2,106**	**903**	**10,179**

The non-investment grade items (i.e. items with a rating below BBB-) mainly consist of exposures in so-called GIIPS countries. This largely concerns interest-bearing securities, including covered bonds and RMBS transactions.

The non-investment grade exposure in Austria concerns a senior unsecured bond of the former Hypo Alpe-Adria-Bank with a guarantee from the federal state of Carinthia and a maturity until early 2017. In 2014 the fair value of this investment fell by EUR 34 million as a result of uncertainty regarding the Austrian government's ability to meet all of its obligations. For the time being, BNG Bank sees no reason to recognise an impairment. Please refer to note 38 Events after the balance sheet date for further details.

The total fair value of foreign non-investment grade exposures amounts to EUR 890 million (2013: EUR 795 million). This increase is largely attributable to the downgrade of the investment mentioned above and the increase in the fair value of Spanish and Portuguese RMBS transactions and Spanish covered bonds.

INTEREST-BEARING SECURITIES (IBS) PORTFOLIO

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

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

	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL
						31/12/2013
LIQUIDITY PORTFOLIO						
Level I – Government / Supranational	4,738	2,166	3	247	46	7,200
Level II A – Covered bonds	420		75			495
Level II A – Government / Supranational		60	22	21		103
Level II B – Corporates			235			235
Level II B – RMBS	347	45				392
	5,505	**2,271**	**335**	**268**	**46**	**8,425**
ALM PORTEFEUILLE						
RMBS/CMBS	179	123	215	489	204	1,210
Covered bonds			397	687	50	1,134
ABS	127	29		185	65	406
NHG	50	133	313			496
Other		320	412	167	216	1,115
	356	**605**	**1,337**	**1,528**	**535**	**4,361**
TOTAL	**5,861**	**2,876**	**1,672**	**1,796**	**581**	**12,786**

CREDIT RISK FOR FINANCIAL ASSETS

The following tables provide a quantitative overview of the bank's credit risk.

	31/12/2014	31/12/2013
	BALANCE SHEET VALUE	BALANCE SHEET VALUE
FINANCIAL ASSETS		
Amounts due from banks and Loans and advances	101,778	100,583
Financial assets at fair value through the income statement	4,247	3,530
Financial assets available-for-sale	13,693	9,607
Other financial assets	31,322	15,874
	151,040	**129,594**
Less derivatives and value of hedged risk	−32,844	−16,947
TOTAL	**118,196**	**112,647**

	31/12/2014		31/12/2013	
	BALANCE SHEET VALUE	IN %	BALANCE SHEET VALUE	IN %
BREAKDOWN BY MARKET SEGMENTS				
Public sector	40,220	34%	37,934	34%
Public housing	42,966	36%	43,441	38%
Healthcare	7,698	7%	8,030	7%
Energy, Water and Telecom	1,712	1%	1,912	2%
Transport, Logistics and Environment	2,100	2%	2,186	2%
Education	1,071	1%	1,064	1%
Other	2,256	2%	2,284	2%
SUBTOTAL	**98,023**	**83%**	**96,851**	**86%**
Credit institutions	12,664	11%	9,686	9%
Other financial institutions	6,183	5%	5,102	4%
Other	1,326	1%	1,008	1%
TOTAL	**118,196**	**100%**	**112,647**	**100%**

Continued on next page

Continuation of previous page

	31/12/2014		31/12/2013	
	BALANCE SHEET VALUE	IN %	BALANCE SHEET VALUE	IN %
OF WHICH SUBJECT TO SOLVENCY REQUIREMENTS				
Public sector	393	3%	449	3%
Public housing	693	5%	841	5%
Healthcare	2,519	17%	2,580	16%
Energy, Water and Telecom	1,670	11%	1,866	12%
Transport, Logistics and Environment	873	6%	940	6%
Education	948	6%	933	6%
Other	1,621	11%	1,621	10%
SUBTOTAL	**8,717**	**59%**	**9,230**	**58%**
Credit institutions	1,144	7%	2,696	17%
Other financial institutions	5,132	34%	4,058	25%
Other	85	0%	86	0%
TOTAL	**15,078**	**100%**	**16,070**	**100%**

The majority of risks are concentrated in the market segments with exposures subject to solvency requirements. Almost all exposures to statutory clients subject to solvency requirements have been guaranteed by counterparties in the form of collaterals and securities. While these collaterals and securities do not lower solvency requirements, they are available to sell off in the event of bankruptcy of a counterparty. The other exposures subject to solvency requirements relate to a select number of financial institutions, primarily due to the applicable collateral requirements. The exposures subject to solvency requirements also include 5 (2013: 8) counterparties whose individual exposures represent more than 10% of the bank's BIS regulatory capital.

MAXIMUM CREDIT RISK

The following table provides insight into the maximum credit risk of all financial assets – without accounting for the fair value of all collaterals and securities – in the event that the counterparties were to default on their obligations. These financial assets have been entered at balance sheet value, with the exception of contingent liabilities and irrevocable facilities, which have been entered at nominal value.

	31/12/2014	31/12/2013
Cash and balances with the central banks	2,241	1,467
Derivatives*	16,800	9,346
Amounts due from banks and Loans and advances	101,778	100,583
Financial assets at fair value through the income statement (excluding derivatives)	2,725	2,457
Financial assets available-for-sale	13,693	9,607
Contingent liabilities	172	188
Irrevocable facilities	5,326	5,925
TOTAL	142,735	129,573

* Excluding value of hedged risk

The derivatives almost exclusively consist of interest rate swaps and cross-currency interest rate swaps. The bank only enters into such contracts with financial counterparties that have a high level of creditworthiness. Exposure to credit risk has also been limited by means of netting and collateral agreements. As at 31 December 2014 the value of the guarantees provided by governments, the WSW Housing guarantee fund and the WfZ Healthcare guarantee fund on loans in the Loans and advances balance sheet item totalled EUR 81.0 billion (2013: EUR 81.7 billion). The contingent liabilities and the irrevocable facilities are explained in note 34 and note 35, respectively. Note 36 indicates the part of the financial assets that are not freely disposable.

TRANSFER OF FINANCIAL ASSETS WITHOUT DERECOGNITION

The following table shows the balance sheet values of the financial assets that were transferred but not derecognised and the related financial liabilities. The financial assets are not removed from the balance sheet, as BNG Bank retains the credit risks and the rights to the underlying cash flows. BNG Bank has no financial assets in its portfolio that were transferred and derecognised in which it has a continuing involvement.

	31/12/2014	
	INTEREST-BEARING SECURITIES TRANSFERRED IN REPURCHASE TRANSACTIONS	
	BALANCE SHEET VALUE	MARKET VALUE
TRANSFERRED ASSETS		
Financial assets available-for-sale	522	522
RELATED LIABILITIES		
Amounts due to banks	510	510
NET POSITION	**12**	**12**

	31/12/2013	
	INTEREST-BEARING SECURITIES TRANSFERRED IN REPURCHASE TRANSACTIONS	
	BALANCE SHEET VALUE	MARKET VALUE
TRANSFERRED ASSETS		
Financial assets available-for-sale	2,557	2,557
RELATED LIABILITIES		
Amounts due to banks	2,581	2,580
NET POSITION	**−24**	**−23**

The interest-bearing securities transferred in connection with repurchase transactions concern government bonds and securities issued by supranational institutions. These securities are highly liquid, are accepted as collateral by the central bank and have very good credit ratings. During the term of the repurchase transactions, BNG Bank is unable to sell the transferred interest-bearing securities or to use them as collateral in other transactions. This also applies if the value of the transferred assets exceeds the value of the related liabilities.

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

The credit risk from derivatives is relatively small despite the fact that principal amounts totalled EUR 246 billion at year-end 2014 (2013: EUR 225 billion). With the exception of currency derivatives, these contractual principal amounts merely serve as accounting quantities and do not reflect the size of cash flows or the risk associated with the derivatives. The credit equivalent of the derivatives portfolio serves as a more accurate indicator in this regard. The credit risk is expressed in terms of credit equivalents, in accordance with central bank guidelines. The credit equivalent consists of the market value plus an add-on for future credit risk.

Contracts with a positive value – where contractual default by the counterparty would cause the bank to lose profit – are relevant in this regard. The principal amounts are also multiplied by percentages based on the specific product and its maturity period. The sum of these two values (credit equivalent) provides an indication of the credit risk. At year-end 2014 the risk-weighted credit equivalent of the derivatives portfolio totalled EUR 1,312 million (2013: EUR 880 million). These figures reflect netting of the positive and negative market values of contracts per counterparty.

	31/12/2014	31/12/2013
CREDIT EQUIVALENTS (NON-RISK-WEIGHTED):		
Interest contracts	1,874	1,198
Currency contracts	1,154	643
TOTAL	**3,028**	**1,841**
Less: Cash collateral received	819	336
TOTAL AFTER DEDUCTION OF CASH COLLATERAL	**2,209**	**1,505**

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

		GROSS VALUE OF FINANCIAL ASSETS OR LIABILITIES BEFORE BALANCE SHEET NETTING	GROSS VALUE OF THE FINANCIAL LIABILITIES TO BE NETTED	BALANCE SHEET VALUE OF FINANCIAL ASSETS (AFTER NETTING)	VALUE OF FINANCIAL NETTING INSTRUMENT THAT DOES NOT COMPLY WITH IAS 32 FOR NETTING PURPOSES[2]	EXPOSURE BEFORE COLLATERAL	VALUE OF FINANCIAL COLLATERAL THAT DOES NOT COMPLY WITH IAS 32 FOR NETTING PURPOSES	NET EXPOSURE
								31/12/2014
Derivatives stated as assets[1]	NOTES 3+4+5+10	16,800	–	16,800	14,324	2,476	897	1,579
Derivatives stated as liabilities	NOTES 2+5+11+12	26,607	–	26,607	14,324	12,283	12,247	−36
NET		−9,807	–	– 9,807	–	– 9,807	−11,350	1,543
								31/12/2013
Derivatives stated as assets[1]	NOTES 3+4+5+10	9,346	–	9,346	8,118	1,228	422	806
Derivatives stated as liabilities	NOTES 2+5+11+12	16,687	–	16,687	8,118	8,569	8,152	417
NET		−7,341	–	−7,341	–	−7,341	−7,730	389

[1] Excluding value of hedged risk of EUR 16,044 million (2013: EUR 7,601 million).

[2] Netting of derivatives with the same counterparty.

FORBORN EXPOSURES

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

	31/12/2014			
INTERNAL RATING	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	DISTRIBUTION IN %	EXPOSURE TO LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS WITH MODIFICATIONS IN TERMS AND CONDITIONS	EXPOSURE TO SOLVENCY-FREE LOANS AND ADVANCES WITH MODIFICATIONS IN TERMS AND CONDITIONS
0 (solvency-free)	58,298	57%	–	20
1 through 11	39,087	39%	–	–
12 through 13	3,223	3%	15	–
14 through 17	824	1%	87	–
18 through 19	84	0%	9	–
TOTAL	101,516	100%	111	20

INTERNAL RATING				31/12/2013
	EXPOSURE TO LOANS AND ADVANCES AND OFF-BALANCE, EXCLUDING INCURRED LOSS PROVISION	DISTRIBUTION IN %	EXPOSURE TO LOANS AND ADVANCES SUBJECT TO SOLVENCY REQUIREMENTS WITH MODIFICATIONS IN TERMS AND CONDITIONS	EXPOSURE TO SOLVENCY-FREE LOANS AND ADVANCES WITH MODIFICATIONS IN TERMS AND CONDITIONS
0 (solvency-free)	57,572	55%	–	
1 through 11	42,226	41%	–	
12 through 13	2,864	3%	145	96
14 through 17	285	0%	155	33
18 through 19	700	1%	61	623
TOTAL	**103,647**	**100%**	**361**	**752**

The financial assets whose contractual terms have been modified as a result of the debtor's unfavourable financial position amounted to EUR 131 million as at 31 December 2014 (2013: EUR 1,113 million). The share in the total loan portfolio is 0% (year-end 2013: 1%) and concerns 6 debtors (year-end 2013: 25 debtors). The substantial decrease in forbearance debtors is caused by the further interpretation, in 2014, of items under forbearance to be reported, subsequent to definitive regulations. The regulations on this issue had not yet been finalised at the end of 2013. BNG Bank has sought alignment with the interpretation by the Basel Committee.

NON-PERFORMING EXPOSURES

Non-performing exposures are exposures:

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

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

	2014	2013
Opening balance	81	38
Loans in default but for which no individual provision is required	19	22
Loans in default for which individual provisions have been arranged	58	36
Repayments on or settlement of loans in default	−7	−1
Shift from non-performing to performing exposures	−36	−14
CLOSING BALANCE	**115**	**81**

In 2014, four parties defaulted for which no individual provisions were deemed necessary. Individual provisions were made for the outstanding debts of seven counterparties in 2014, of which four were already in default in 2013. The debts of two other counterparties were written down in 2014. Movement in the incurred loss provision is explained in note 2.

PROVISIONS POLICY

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

- an internal rating of 14 of higher, or
- payment arrears and/or a breach of the contractual terms exceeding 90 days and/or the debtor is unlikely to pay ('default').

The individual provision only relates to loans and advances subject to solvency requirements. Solvency-free loans and advances are deemed to be free of credit risk on account of guarantees, collateral or by virtue of the status of the counterparty, such as the Dutch municipal and provincial authorities. Furthermore, the bank has a collective provision based on a so-called Incurred But Not Reported (IBNR) model. For loans and advances subject to solvency requirements, this model calculates a provision based on factors such as exposure and the debtor's rating. Lastly, for loans and advances not subject to solvency requirements due to a guarantee from a regional government, the model calculates a provision on the basis of a premium for operational risk.

MATURITY ANALYSIS OF PAST DUE FINANCIAL ASSETS WITHOUT INDIVIDUAL IMPAIRMENT

	31/12/2014	31/12/2013
Less than 31 days	1	0
31 through 60 days	0	0
61 through 90 days	0	0
Over 90 days	2	3
TOTAL	**3**	**3**

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

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

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

Changes in the market value of financial assets at fair value through the income statement as a result of adjusted credit-risk spreads totalled EUR 354 million negative (2013: EUR 206 million negative) and EUR 148 million negative over 2014 (2013: EUR 1 million positive).

An integral increase in the credit risk spread by +25 basis points as at year-end 2014 would cause the market value of the interest-bearing securities included in the financial assets at fair value through the income statement to fall by approximately EUR 62 million (2013: approximately 51 million).

Changes in the market value of financial liabilities at fair value through the income statement as a result of adjusted credit risk spreads in recent years totalled approximately nil (accumulated). An integral increase in the credit risk spread by +25 basis points as at year-end 2014 would cause the market value of the debt securities included in the financial liabilities at fair value through the income statement to rise by approximately EUR 73 million (2013: approximately EUR 54 million).

MARKET RISK

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

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

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

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

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

The impact before tax of an instantaneous interest rate shock on the market value at 31 December 2014 (31/12/2013):

	TOTAL CHANGE IN MARKET VALUE		IMPACT ON THE INCOME STATEMENT		IMPACT ON EQUITY		LONG-TERM IMPACT ON THE FUTURE INCOME STATEMENT	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
INTEREST RATE SHOCK								
+200 bp	−183	−158	+75	+14	−4	+1	−254	−173
−200 bp	+205	+163	−65	−20	+4	−1	+266	+184
ACCOUNTING CLASSIFICATION			FAIR VALUE THROUGH THE INCOME STATEMENT		FAIR VALUE THROUGH EQUITY		AMORTISED COST	

The bank's income statement and/or equity is only affected immediately by a limited part of these market value fluctuations. In the example described above (the 200 basis points scenario), EUR 75 million positive (2013: EUR 14 million positive) is immediately reflected in the annual result, with a EUR 254 million negative impact (2013: EUR 173 million) on future years. Of this amount, EUR 4 million negative (2013: EUR 1 million positive) immediately ends up in the bank's equity. As the table shows, a relatively large market value shock due to interest rate fluctuations will only have a relatively minor effect on the bank's annual result. This is due to the fact that the majority of the bank's result is determined on the basis of amortised costs. This is the result of the hedging strategy and the corresponding hedge accounting system employed by the bank, causing profits and losses due to interest rate fluctuations to be spread out over a longer period in the result.

FOREIGN EXCHANGE RISK

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

CREDIT SPREADS, LIQUIDITY SPREADS AND INTEREST RATE RISK MANAGEMENT

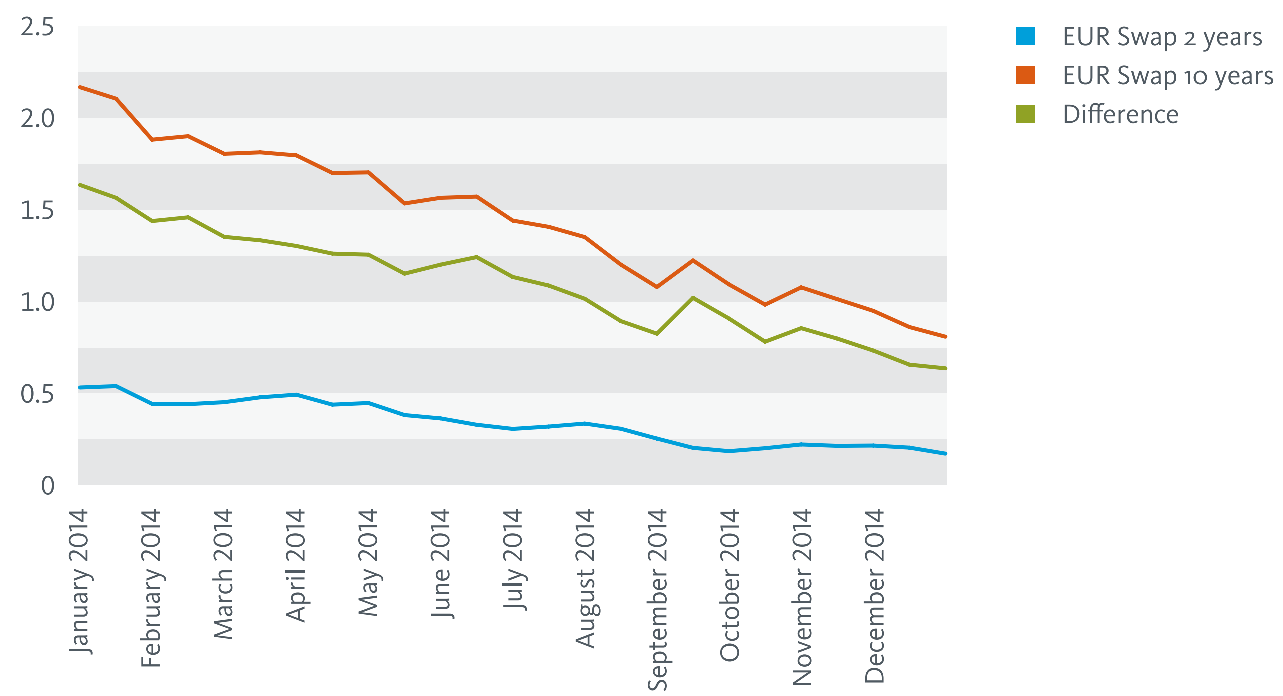
BNG Bank's interest rate position is determined over its entire portfolio of assets and liabilities. The interest rate position is valued on the basis of a yield curve made up of market-based swap rates plus credit and liquidity risk spreads and discounts. Due to their relatively safe nature, the interest-bearing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

MARKET RISK DEVELOPMENTS

As in previous years, the bank opted for a restrictive exposure policy in 2014 in the sense that its interest rate exposure was low in terms of duration throughout the year. The bank considered that the possible yield generated by a longer duration if interest rates continued to fall would count for little against the negative consequences of a sharp interest rate hike with a substantially longer duration. Given the current low interest rate and its expected development, the bank continues to exercise restraint, as it deems the risks of a larger position to be too great in view of its sensitivity to interest rates. In conformity with the bank' market risk policy, the foreign exchange position was zero during the entire year.

EUROPEAN SWAP CURVE

(in %)



One of the principles underlying the bank's interest rate risk framework was that the bank's purchase and sales prices hover around the Euro swap curve. This has however been far less the case since the start of the financial crisis. The markets are placing more emphasis on the costs of liquidity than previously, leading to higher spreads, particularly in the longer maturities. The bank's interest rate framework is being adjusted accordingly. Financial instruments are also accompanied by risks that have to be factored into the valuation more emphatically than before, and interest rate risk management is subject to more regulatory requirements. In view of the increased complexity of interest rate management brought about by these circumstances, a new draft framework was drawn up in 2013. The implementation of this framework began in early 2014. This project takes the form of a number of sub-projects which address components such as policy, risk models, valuation institutions, portfolio composition and reporting. The project is scheduled to be finalised in 2015. In the new framework, the bank's interest rate position will be aligned with interest rate sensitivity in terms of 'base point values' (delta) per maturity segment.

LIQUIDITY AND FUNDING RISK

DEFINITIONS

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

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

LIQUIDITY

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

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

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

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

FUNDING

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

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

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

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

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

For reasons of diversification, the bank also uses the following in order to finance its activities:

- Using instruments from the liquidity portfolio as collateral.
- Guaranteed Investment Contracts (GICs).

DEVELOPMENTS

In 2014 BNG Bank was able to operate effectively both on the money market and the capital market. The USCP programme for drawing short-term funding in dollars, launched in 2013, has become a fixed component of the funding mix and, as such, has contributed to diversifying the funding portfolio. Funding with relatively long maturities was also readily available on the capital market. Combined with the rather shorter maturities of loans to clients over the reporting year, this reduced the bank's long-term funding deficit, making the bank less sensitive to rising liquidity spreads in the future.

In 2014 the bank implemented changes in its liquidity policy within the framework of both the Internal Liquidity Adequacy Assessment Process (ILAAP) and the recovery plan. The bank also tested the liquidity contingency plan: the test results have been evaluated and give no cause for any further adjustment of the liquidity policy.

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

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

	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	31/12/2014 TOTAL
Cash and balances with the central banks	2,241				2,241
Amounts due from banks	10,103	511	409	52	11,075
Financial assets at fair value through the income statement (excluding derivatives)	22	116	381	2,847	3,366
Financial assets available-for-sale	146	794	4,434	9,261	14,635
Loans and advances	7,620	9,732	39,739	59,077	116,168
Other assets	155				155
TOTAL ASSETS (EXCL. DERIVATIVES)	20,287	11,153	44,963	71,237	147,640
Amounts due to banks	−2,353	−192			−2,545
Financial liabilities at fair value through the income statement (excluding derivatives)	−8	−15	−481	−2,766	−3,270
Debt securities	−11,863	−21,915	−48,804	−30,571	−113,153
Funds entrusted	−2,996	−1,161	−2,448	−11,146	−17,751
Subordinated debts	−1	−2	−6	−45	−54
Other liabilities	−34				−34
TOTAL LIABILITIES (EXCL. DERIVATIVES)	−17,255	−23,285	−51,739	−44,528	−136,807

Continued on next page

Continuation of previous page

	31/12/2014				
	UP TO 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	TOTAL
GROSS BALANCED DERIVATIVES					
Assets amounts receivable	10,325	18,457	32,701	26,416	87,899
Assets amounts payable	−8,915	−15,288	−23,743	−17,022	−64,968
DERIVATIVES STATED AS ASSETS	**1,410**	**3,169**	**8,958**	**9,394**	**22,931**
Liabilities amounts receivable	930	528	5,397	17,021	23,876
Liabilities amounts payable	−1,721	−2,857	−15,383	−31,176	−51,137
DERIVATIVES STATED AS LIABILITIES	**−791**	**−2,329**	**−9,986**	**−14,155**	**−27,261**
GRAND TOTAL	**3,651**	**−11,292**	**−7,804**	**21,948**	**6,503**

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

Continued on next page

Continuation of previous page

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

LIQUIDITY PORTFOLIO

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced under the CRD IV regulations. The LCR indicates to what extent BNG Bank has an adequate buffer of liquid assets in order to absorb a stressed net outgoing cash flow over a 30-day period. The NSFR is a ratio for liquidity over a one-year period. This ratio is calculated by dividing the available stable funding by the required stable funding. Both the LCR and the NSFR should be at least 100%. BNG Bank has a liquidity portfolio for quickly accessing liquidity when conditions are stressed, without having to use the name BNG Bank in the market. This desire originates primarily in prudential liquidity policy, but also in the obligation to fulfil the new regulatory requirements. The assets have been divided into two categories, namely Level I assets (extremely liquid assets) and Level II assets (liquid assets). Level II assets may account for a maximum of 40% of the value of the liquidity portfolio. Of the total LCR value of the bank's portfolio, 90% (2013: 79%) concerned Level I assets and 10% (2013: 21%) concerned Level II assets. The LCR at year-end 2014 amounted to 168% and, as such, met the minimum standard.

At year-end 2014, the LCR value of the liquidity portfolio amounted to EUR 9.1 billion (2013: EUR 4.6 billion). The increase of EUR 4.5 billion (2013: decrease of EUR 3.0 billion) is caused by encumbered securities received back and portfolio expansion.

				31/12/2014
LCR CLASS	REMAINING PRINCIPAL AMOUNT	REMAINING PRINCIPAL AMOUNT UNENCUMBERED	MARKET VALUE UNENCUMBERED	LCR VALUE UNENCUMBERED
Level I – Government	5,628	3,763	4,980	4,980
Level I – Supranational	2,848	2,848	3,246	3,246
Level II A – Government/ Supranational	81	81	94	94
Level II A – Covered Bonds	574	574	570	570
Level II B – Corporates	196	196	130	130
Level II B – RMBS	140	140	104	104
TOTAL	9,467	7,602	9,124	9,124

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

CLARIFICATION:

- Market value: market value of the unencumbered part of the liquidity portfolio;
- LCR value: LCR liquidity value of the unencumbered part of the portfolio.

At year-end 2014 a maximum nominal value of EUR 0.4 billion (2013: EUR 2.0 billion) in assets from this portfolio was used as collateral for repurchase transactions, while EUR 1.4 billion (2013: EUR 1.8 billion) was used as collateral for derivative transactions.

ENCUMBERED AND UNENCUMBERED FINANCIAL ASSETS

In times of funding and liquidity needs, encumbered financial assets are not freely disposable to meet these needs in the short term. The following table shows the balance sheet values of the financial assets, broken down into encumbered (not freely disposable) and unencumbered (freely disposable) assets[16].

[16] Every year BNG Bank reports on the encumbered and unencumbered financial assets on the basis of year-end figures.

	31/12/2014		
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances with the central banks	0	2,241	2,241
Amounts due from banks	10,089	957	11,046
Financial assets at fair value through the income statement (excluding derivatives)	0	2,725	2,725
Financial assets available-for-sale	2,704	10,989	13,693
Loans and advances	889	89,843	90,732
TOTAL FINANCIAL ASSETS	**13,682**	**106,755**	**120,437**

	31/12/2013		
	ENCUMBERED	UNENCUMBERED	TOTAL
Cash and balances with the central banks	0	1,467	1,467
Amounts due from banks	7,384	1,125	8,509
Financial assets at fair value through the income statement (excluding derivatives)	53	2,404	2,457
Financial assets available-for-sale	5,645	3,962	9,607
Loans and advances	0	92,074	92,074
TOTAL FINANCIAL ASSETS	**13,082**	**101,032**	**114,114**

OPERATIONAL RISK

DEFINITIONS

Operational risk is defined as the risk of losses due to shortcomings of internal processes, people and systems, or as a result of external events. Operational risk comprises the following risks:

- IT risk is the risk that business processes and information systems are supported by information technology whereby protection is insufficiently sound, discontinuous or unsatisfactory.
- Outsourcing risk is the risk that the continuity, integrity and/or quality of activities outsourced to third parties or the equipment or staff provided by these third parties are adversely affected.
- Integrity risk is the risk that the institution's integrity is adversely affected by unprofessional or unethical behaviour by the organisation or its employees and clients in breach of applicable legislation or social and institutional standards.
- Legal risk is the risk associated with (changes in and compliance with) legislation and potential threats to the institution's legal status, including the possibility that contractual stipulations prove unenforceable or have been incorrectly documented.
- General: operational risks that fall outside the scope of IT, outsourcing, integrity or legal risks.

GENERAL

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

Risk Control is the 'second line of defence' and is responsible for providing an overview and understanding of risks, as well as control guidelines. It supports and advises line management by facilitating periodical risk self-assessments and by analysing operational risks. The risks, control measures and residual risks identified are documented.
Risk Control will propose supplementary control measures where necessary and monitor their timely implementation. Residual risks will be communicated to the responsible managing director, who will, if applicable, advise the

Executive Board on their acceptance. Besides the assessments, Risk Control issues recommendations in connection with projects and changes in operational risk management processes.

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

BNG Bank registers all operational incidents upwards of a predetermined scale. To this end, employees involved in the operational process report the incidents to Risk Control. In addition to registering incidents, Risk Control conducts joint assessments with the various departments in order to determine whether the prevention of future incidents will require any adjustments to the process, systems or working methods. Every quarter, Risk Control reports on incidents to the Executive Board and management. It provides annual reports on incidents with a (potential) impact of more than EUR 100,000 to the Executive Board and the Supervisory Board's Audit & Risk Committee. The incident report on 2014 concerned three incidents (2013: 4). The impact of these incidents on the bank's annual results in both 2013 and 2014 was limited.

IT RISK

The bank's information policy is based around an information system that allows the bank to continue executing its company strategy successfully. The management of IT risk is based on the application of preventative rather than remedial measures. These measures are aimed at preventing (potential) incidents or detecting them at the earliest possible opportunity and preventing the resulting damage or restoring the desired situation as quickly as possible. In order to guarantee the continuity of IT support at the bank, a fallback test was also conducted in 2014. This successful test demonstrated that the bank's backup systems are adequately equipped to ensure that services continue as normal in the event of a calamity. Furthermore, the systems are frequently tested for sensitivity to hacking.

Although a small player, the bank must nevertheless satisfy all requirements to which large institutions are subject. Basic principles are services to clients, regulatory requirements and risk management. To limit the IT risk, the bank seeks to reduce the complexity of its IT systems. The dynamics of the financial markets and statutory and regulatory requirements constitute a challenge to the bank in this regard. For the bank's IT organisation, this has resulted in a full project portfolio and considerable investment in hardware and software. The information management function was further consolidated in 2014 and will continue to be a focus of attention in 2015.

2014 also saw improvements in the quality of project planning, enabling the bank to more effectively steer its project portfolio – which has many links with IT – and set the right priorities for this process. Given the full IT agenda, due in particular to the necessary adaptations to systems in response to changing laws and regulations, this is a major area of focus for the bank.

In 2014 the bank performed a self-assessment of its level of information security, at the request of DNB. The conclusion was that following the implementation of a limited number of adaptations in 2014, the information security level meets the relevant DNB standards.

As described in the section on outsourcing risk, the bank has partially outsourced its IT to Centric FSS. Effective cooperation between the bank and Centric FSS is essential in managing the IT risk. The expansion of internal capacity of the bank's IT department in order to handle the large number of projects will be continued in 2015. This expansion is expected to remain necessary in the years ahead.

OUTSOURCING RISK

BNG Bank's most important outsourcing contract relates to the outsourcing of a large portion of the bank's IT activities to Centric FSS. These activities include payment services and current account administration, the computing centre and workstation management. BNG Bank's activities are linked to those carried out by Centric FSS via Service Level Agreements (SLAs) and the bank's internal demand organisation.

IT support is crucial for a bank. This is why BNG Bank has a procedure in place for the proper monitoring and evaluation of the service provider's services. The ISAE 3402 statement annually issued by Centric FSS is part of this procedure. The Internal Audit Service's periodical audits of Centric FSS provide extra assurance. The bank also structurally monitors the financial situation of Centric FSS and draws up contingency plans.

INTEGRITY RISK

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

The issue of integrity is highlighted among all staff on a regular basis. In 2015 this will be combined with the banker's oath, to be sworn by all staff.

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

LEGAL RISK

The bank has a specialist legal department whose tasks and responsibilities include setting out arrangements with clients and other parties in legally sound agreements. To this end, standard contracts and provisions have been drawn up, which are managed in an internal (contract) models library. Any deviation from these standard contracts is coordinated with the Legal Affairs department.

The bank is working to further automate the administration of contractual provisions in agreements with clients, with an intention to standardise the conditions and provisions as much as possible. To this end, the internal (contract) models library is being further developed and updated, in the interest of the efficiency of the bank's lending activities. This will reduce the number of manual activities in the operational process to a minimum and prevent the necessity of sorting out individual contracts where possible. This process will continue in 2015.

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

As at year-end 2014 BNG Bank was involved in a very small number of legal proceedings. After assessing the disputes concerned, the bank does not expect that these proceedings will have any negative consequences. The legal proceedings did not result in the payment of any claims during the reporting year.

OPERATIONAL RISK DEVELOPMENTS

The comprehensive assessment by the ECB entailed a considerable additional workload in 2014. The ECB imposes different requirements on banks, and treats BNG Bank as any other bank. Its questions require very precise answers, supported by figures, irrespective of the individual risk profile of the bank concerned. As a bank with a low credit risk profile and a non-standard business model, BNG Bank focuses on knowledge-intensive collaboration and a service-oriented attitude towards clients. The strict deadlines and the need to satisfy the regulators' rapidly changing demands require an extra – and a different – effort. Despite the employment of additional staff, the workload in parts of the organisation remains high, resulting in operational risks that must be addressed.

The Executive Board has launched a data quality programme for 2015 that covers both technical aspects and aspects having to do with awareness and conduct.

The form and structure of the self-assessments have been adapted in response to recent developments so as to facilitate operational risk management more effectively. Attention for operational risks in the context of projects and process changes will be intensified.

In 2015, the workforce will be significantly strengthened in a number of critical areas. Despite this measure, the workload is expected to remain high. Where necessary, additional staff will be hired. As BNG Bank is a technology-intensive and knowledge-intensive business in which the staff's activities often cover various areas of expertise, the induction of new employees takes a relatively large amount of time.

STRATEGIC RISK

DEFINITIONS

Strategic risk is defined as the risk that strategic decisions of the institution itself could result, in the execution of those decisions, in losses and/or the chance of losses as a result of changes beyond the control of the institution or group in the areas of the bank's competitive position, stakeholders, reputation and business climate (including political climate). Strategic risk consists of the following aspects:

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

COMPETITIVE RISK, DEPENDENCY RISK AND BUSINESS CLIMATE

The relatively low credit margins characteristic of the market in which BNG Bank operates act as an obstacle to potential new entrants. Scale and efficiency are key to a profitable business model. Parties striving to maximise their profits will thus enter this market on a limited scale. As a result, the bank's exposure to competitive risk is traditionally limited. In fact, a lack of competition has been more of a concern in recent years. Nevertheless, competition is expected to increase with the normalisation of the markets. The huge amount of new regulations has led to a substantial increase in costs and, as a result, to decreasing efficiency from a financial perspective, something that is also being experienced by other banks. It is still unclear to what extent the different business models of financial institutions are being affected, and whether this will change their competitive position.

At BNG Bank, dependency risk and political risk (business climate) are closely linked, because public authorities are both shareholders and clients. BNG Bank has a high dependency risk with respect to governmental developments. Continuing cutbacks in the public sector have resulted in near to zero growth in BNG Bank's balance sheet on account of lending, which has unfavourable consequences for scale and cost ratios. However, it can be seen as an advantage in view of the need to comply with the mandatory leverage ratio from the beginning of 2018.

The future role of housing corporations presents a potential threat. Part of the recommendation drawn up by the parliamentary housing corporations committee is to have the financiers bear more risk in the funding of those corporations. This recommendation, if implemented, will have consequences for BNG Bank's business model. In that case the bank will have to adapt its risk profile or accept constraints in its ability to serve this important client category. In addition, as such a measure would reduce the efficiency of the lending process it would result in higher rates for the social task that the housing corporations perform.

Another potential threat is the EU's Bank Recovery and Resolution Directive (BRRD), which poses the question of whether the Dutch State is permitted to assist BNG Bank in the event of problems, or whether this would constitute state aid or a bail-in. Uncertainty as to the exact form and interpretation of bail-in regulations has made the rating agencies cautious.

BNG Bank incidentally invests modest amounts of risk-bearing capital in area development projects. This allows the bank to participate in such projects in its capacity as lender. In view of market conditions in the sector, these efforts have been on hold since mid-2010. The bank has invested little to no capital in such projects since then.

REPUTATION RISK

BNG Bank is always looking for solutions that are in the client's interest. It considers this to be of vital importance for its reputation as a bank of and for the public sector. This is reflected not only in the bank offering products that its clients ask for, but especially in a certain reticence if it is not sufficiently clear that a particular product is in the clients' interest. The bank will stress this when it receives requests for financing arrangements which it considers unsuitable for the client concerned. This mainly concerns smaller organisations of which the bank assumes that they lack the in-house expertise to assess – for example – the value development of financial instruments under stressful market conditions. This is factored into the bank's product approval process.

Naturally, reputation risk also applies to the bank's other stakeholders, such as investors and shareholders. It often arises as a consequential risk if other risks are not properly controlled. Therefore it makes up an integral part of all aspects of the bank's risk policy. Mitigation of the various risks thus indirectly safeguards the bank's reputation.

CAPITAL AND SOLVENCY

A multitude of new regulations followed the publication of the Third Basel Accord, on which a part of the new regulations are based. In 2013, these regulations were legally incorporated through the Capital Requirements Directive IV (CRD IV) and the associated Capital Requirements Regulation (CRR). The CRD IV is to be incorporated into national legislation, with national discretions being permitted. This phase will effectively be skipped for the CRR as the content of this regulation will be incorporated directly into the national legislation of all EU Member States. The CRR is known as the 'single rule book' as it precludes differences between the Member States. The CRR was published in the Official Journal of the European Union on 27 June 2013 and was followed by an amended version on 30 November 2013. The CRR has been in effect since 1 January 2014. The CRD IV section was published simultaneously and has since been incorporated into Dutch national legislation.

One of the things introduced by CRD IV/CRR is a leverage ratio, which is the ratio between the total non-risk-weighted balance sheet and the capital of the bank. Given the fact that a very large part of BNG Bank's balance sheet consists of non-risk-weighted lending, application of the leverage is much less favourable than the Tier 1 capital ratio. The minimum level required for this ratio is not expected to be formally determined until 2017. This decision will be based on a recommendation by the European Banking Association (EBA), to be issued in 2016 at the latest, which should explicitly allow for the various business models applied by banks. Thus far, only a figure of 3% has been mentioned. The Member States will not be authorised to set a lower leverage ratio, although they will be authorised to increase it. The four systemically important banks in the Netherlands will have to apply a 4% ratio with effect from 2018. BNG Bank is not one of these and has, in its capital planning, maintained the 3% minimum ratio mentioned by the

Basel Committee. One of the consequences is that, beginning in the 2011 financial year, the dividend was reduced from a pay-out percentage of 50% to 25%. The possibility of attracting hybrid capital that qualifies as additional Tier 1 capital is also part of the migration plan, and preparations for a possible issue are well advanced. By taking these measures, the bank prevents threats to client lending due to constrictive capital ratios.

In order to maintain its good credit ratings, BNG Bank has for many years applied a self-imposed Tier 1 ratio of 18%, which is also more than sufficient to satisfy the requirements of CRD IV. The bank considers this ratio to be amply sufficient in relation to its risk profile. Given its desire to maintain a high Tier 1 capital ratio relative to the other banks, BNG Bank is aiming for a ratio that is higher than 18% for 2015 and beyond. As at 31 December 2014 the Tier 1 ratio and CET 1 ratio were both 24%. BNG Bank employs the 'Standardised Approach' (SA) for credit risk and market risk and the 'Basic Indicator Approach' for operational risk.

The following overview below presents the ratios as at 31/12/2014 based on the principles of CRD IV/CRR and as at 31/12/2013 based on Basel II. The minimum standards required externally as at 31/12/2014 represent the desired final situation (2018).

SOLVENCY CRD IV/CRR

	31/12/2014		31/12/2013	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
CRD IV/CRR PRINCIPLES (2014)				
Regulatory capital	934	2,770	923	2,810
Total capital ratio	8%	24%	8%	24%
Common Equity Tier 1 capital	529	2,770	461	2,806
Common Equity Tier 1 ratio	4.5%	24%	4%	24%
Risk-weighted assets	N/A	11,681	N/A	11,530
Leverage ratio (LR)	3%	2.0%	N/A	2.3%

CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	31/12/2014		31/12/2013	
	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS
CREDIT RISK				
Standardised approach (divided by category)				
Local government authorities	481	39	400	32
Institutions (as at 31/12/2014 incl CVA charge)	580	46	428	34
Corporations	6,794	543	7,026	562
Associations, foundations etc	665	53	632	51
Covered bonds	525	42	451	36
Securitisations	1,454	116	1,399	112
Participations in investment funds	124	10	126	10
Other	208	17	145	12
	10,831	**866**	**10,607**	**849**
MARKET RISK				
Standardised approach	–	–	–	–
OPERATIONAL RISK				
Basic indicator approach	850	68	923	74
TOTAL	**11,681**	**934**	**11,530**	**923**

REGULATORY CAPITAL

	31/12/2014	31/12/2013
REGULATORY CAPITAL		
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	−15	–
Statutory reserves and reserves under the Articles of Association	632	601
Other reserves	2,071	1,889
Profit current financial year	–	283
Expected dividend payment	–	−71
Deductible items	−63	−41
COMMON EQUITY TIER 1 CAPITAL	**2,770**	**2,806**
Additional Tier 1 capital	–	4
TIER 1 CAPITAL	**2,770**	**2,810**
QUALIFYING CAPITAL	**2,770**	**2,810**

PHASED IMPLEMENTATION OF CRD IV/CRR UNTIL 2018

The ratios based on the CRD IV/CRR principles are given below. This means that the revaluation reserve has been included in full in the calculation of the ratios. The minimum norms required externally represent the desired final situation (2018).

	31/12/2014		31/12/2013	
	MINIMUM REQUIRED EXTERNALLY	PRESENT	MINIMUM REQUIRED EXTERNALLY	PRESENT
CRD IV/CRR PRINCIPLES (2018)				
Regulatory capital	934	3,019	934	2,946
Total capital ratio	8%	26%	8%	25%
Common Equity Tier 1 capital	529	3,019	525	2,946
Common Equity Tier 1 ratio	4.5%	26%	4.5%	25%
Risk-weighted assets	N/A	11,681	N/A	11,669
Leverage ratio (LR)	3%	2.2%	N/A	2.4%

CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

	31/12/2014		31/12/2013	
	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS	RISK-WEIGHTED AMOUNT	CAPITAL REQUIREMENTS
CREDIT RISK				
Standardised approach (divided by category)				
Local government authorities	481	39	400	32
Institutions (incl CVA charge)	580	46	567	45
Corporations	6,794	543	7,026	562
Associations, foundations etc	665	53	632	51
Covered bonds	525	42	451	36
Securitisations	1,454	116	1,399	112
Participations in investment funds	124	10	126	10
Other	208	17	145	12
	10,831	**866**	**10,746**	**860**
MARKET RISK				
Standardised approach	–	–	–	–
OPERATIONAL RISK				
Basic indicator approach	850	68	923	74
TOTAL	**11,681**	**934**	**11,669**	**934**

REGULATORY CAPITAL

	31/12/2014	31/12/2013
REGULATORY CAPITAL		
Share capital	139	139
Share premium reserve	6	6
Revaluation reserve	234	180
Statutory reserves and reserves under the Articles of Association	632	601
Other reserves	2,071	1,889
Profit current financial year	–	283
Expected dividend payment	–	−71
Deductible items	−63	−81
COMMON EQUITY TIER 1 CAPITAL	**3,019**	**2,946**
Additional Tier 1 capital	–	–
TIER 1 CAPITAL	**3,019**	**2,946**
QUALIFYING CAPITAL	**3,019**	**2,946**

CAPITALISATION POLICY

The capitalisation policy is formed in the so-called Internal Capital Adequacy Assessment Process (ICAAP). Key to this policy is the capital management plan, which determines the level and composition of the capital based on the risks to be insured by the capital. In determining the required capital, a number of stress scenarios are taken into account which could affect the capital.

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

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

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

A confrontation between allocated capital and the actual use of capital occurs each month for Pillar I and Pillar II for each risk type. No capital limits were exceeded in 2014.

There is a public debate on whether lending to or guaranteed by government authorities should remain solvency-free. The so-called zero weighting of the Dutch State in terms of solvency is an important pillar under the bank's BIS ratio. The bank also views the credit risk as zero in economic terms under Pillar II of the capital rules of the Basel II Accord. Indeed, in practice there has never been a credit loss on lending to or guaranteed by the Dutch government. Another weighting of loans and advances to the Dutch public sector or guaranteed by the Dutch public sector can have a significant impact on the Tier 1 capital ratio of BNG Bank. In that event, the bank still expects to be able to comply with the minimum requirements, although that will ultimately depend on the weighting itself. ■

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE HIERARCHY

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

105

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

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

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

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

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

Insofar as financial instruments have the character of a forward contract, official forward prices are used, including forward yield curves and forward exchange rates. In the case of complex instruments, the constituent parts of the instrument are measured separately on the basis of the above techniques and models. The fair value of the entire instrument is determined as the sum of the fair values of its constituent parts. BNG Bank only applies recurring fair values, which are measured on an ongoing basis for processing in the financial position at the end of each reporting period.

BALANCE SHEET VALUES VERSUS FAIR VALUES

	31/12/2014		31/12/2013	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances with the central banks	2,241	2,241	1,467	1,467
Amounts due from banks and Loans and advances	101,778	119,058	100,583	109,946
Financial assets at fair value through the income statement	4,247	4,247	3,530	3,530
Financial assets available-for-sale	13,693	13,693	9,607	9,607
Other financial assets*	31,322	15,278	15,874	8,273
TOTAL FINANCIAL ASSETS	**153,281**	**154,517**	**131,061**	**132,823**
Amounts due to banks and Funds entrusted	14,878	16,725	13,972	14,151
Subordinated debts	32	50	32	46
Debt securities	106,069	107,679	94,828	95,717
Financial liabilities at fair value through the income statement	3,327	3,327	3,553	3,553
Other financial liabilities	25,357	25,357	15,086	15,086
TOTAL FINANCIAL LIABILITIES	**149,663**	**153,138**	**127,471**	**128,553**

* The balance sheet value of the Other financial assets item includes a market value adjustment of EUR 16,044 million positive (2013: EUR 7,601 million positive) by virtue of portfolio fair value hedging, which relates almost entirely to the items Amounts due from banks and Loans and advances. This amount concerns the accounting recognition of the effective parts of the hedged market value changes. Please refer to note 32 for a description of the way in which market risks are hedged with derivatives.

When effecting a transaction, the correct hierarchical classification 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 correct classification. The classification in one of the three levels is to take place on the basis of the lowest input level that is significant for the fair value 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. This classification is evaluated at least once every quarter for each transaction, and changes are made where necessary.

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

STATEMENT OF FAIR VALUE LEVELS

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

* Excluding the value of hedged risk of EUR 16,044 million positive (2013: EUR 7,601 million positive).

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

SIGNIFICANT CHANGES IN FAIR VALUE LEVELS

Of the increase of EUR 6 billion in Financial assets available-for-sale in Level 1, EUR 1.3 billion is attributable to euro zone government bonds for the purpose of expanding the liquidity portfolio. Assets in the nominal amount of approximately EUR 4.7 billion have been transferred from Level 2 to Level 1 due to their good marketability. This mainly concerns investments in covered bonds (nominal EUR 1.6 billion) and supranational institutions (nominal EUR 3 billion). Level 2 assets have increased due to investments in the securitisation of Dutch mortgages in the nominal amount of EUR 1.5 billion, market interest rate developments and transfers from Level 3. The EUR 155 million decrease in Financial assets available-for-sale in Level 3 was caused in part by the transfer of investments in the investment funds of BNG Vermogensbeheer to Level 2. The fall in the Financial assets through the income statement item was caused by the transfer of derivatives to Level 2.

* Excluding the value of hedged risk of EUR 16,044 million positive (2013: EUR 7,601 million positive).

STATEMENT OF CHANGES IN LEVEL 3 ASSETS AND LIABILITIES

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

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

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded in the market. The fair value of these transactions is determined on the basis of observable market data and adjusted using significant non-observable input variables.

NON-OBSERVABLE INPUT VARIABLES

In determining the fair value of Level 3 assets and liabilities BNG Bank applies the significant non-observable input variables stated below.

FINANCIAL ASSETS AT FAIR VALUE

For the purpose of determining the spreads of interest-bearing securities and loans with an inflationary component, the following non-observable input variables are used:

- recovery rates for the relevant debtors (0.4) and the relevant monoline insurers (0.3);
- a correlation factor between the debtor and the monoline insurer (0.2 or 0.9, depending on the insurer's financial position).

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

FINANCIAL ASSETS AVAILABLE-FOR-SALE

Due to the absence of public market data, specific liquidity spreads were applied in determining the individual spread curves of four ABS transactions. In determining the market value of an infrastructure participation fund the price was established on the basis of the fund's net asset value (121%).

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

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

The comparative figures have not been adjusted. The sensitivity of the fair value based on the closing balance for 2013 was determined by measuring the effect based on four parallel interest rate shifts. This also reflected the mitigating effects of the associated swaps. These figures did not reflect the effects of movements in credit and liquidity risks.

	31/12/2014				
		IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN THE INTEREST CURVE OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	884	−8	8	−71	102
Financial assets available-for-sale	66	0	0	0	0
Financial liabilities at fair value through the income statement	−51	0	0	3	−10
TOTAL (NET)	**899**	**−8**	**8**	**−68**	**92**

	31/12/2014				
	IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN THE INFLATIONARY COMPONENT OF				
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	884	7	−7	84	−62
Financial assets available-for-sale	66	0	0	0	0
Financial liabilities at fair value through the income statement	−51	0	0	0	0
TOTAL (NET)	899	7	−7	84	−62

	31/12/2014				
	IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN THE CREDIT AND LIQUIDITY SPREAD OF				
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	884	−8	8	−67	90
Financial assets available-for-sale	66	0	0	0	0
Financial liabilities at fair value through the income statement	−51	0	0	0	0
TOTAL (NET)	899	−8	8	−67	90

	31/12/2014				
		IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN SIGNIFICANT INPUT FACTORS OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	884	−6	7	−58	90
Financial assets available-for-sale	66	0	0	0	0
Financial liabilities at fair value through the income statement	−51	0	0	2	−10
TOTAL (NET)	**899**	**−6**	**7**	**−56**	**80**

	31/12/2013				
		IMPACT ON THE BALANCE SHEET VALUE FROM A CHANGE IN SIGNIFICANT INPUT FACTORS OF			
	BALANCE SHEET VALUE	+10 BP	-10 BP	+100 BP	-100 BP
Financial assets at fair value through the income statement	1,055	−17	17	−174	174
Financial assets available-for-sale	221	0	0	−1	1
Financial liabilities at fair value through the income statement	−252	17	−17	173	−173
TOTAL (NET)	**1,024**	**0**	**0**	**−2**	**2**

BNG Bank hedges nearly all its interest rate risks through swaps. The fair value adjustments to interest-bearing securities arising from a change in the interest curve alone therefore have a limited impact on the bank's result and equity. During the reporting period the sensitivity to interest rate fluctuations and the value adjustments to interest-bearing securities and loans with an inflationary component began to diverge from the relevant swaps used to hedge the currency, interest rate and inflation risks. Partly as a result of using the OIS valuation for swaps (whereby collateral obligations are exchanged on a daily basis), the sensitivity level is no longer perfectly reversed. By the end of the maturity of the assets and the associated swaps these changes in market value will approach zero, provided that all parties have met their payment obligations. Since virtually all derivatives associated with the assets in Level 3 have been transferred to Level 2, the mitigating effect of these swaps will no longer be reflected in these statements. This explains the substantial decrease of Level 3 instruments in 2014 within the Financial assets at fair value through the income statement item.

The majority of assets (EUR 487 million) in Level 3 consist of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. Interest rate fluctuations arising from a change in credit and liquidity risk spreads have a direct impact on the result and equity. An integral change in the credit risk spreads by +50 basis points in Level 3 interest-bearing securities stated as assets in the balance sheet will cause the bank's result to fall by EUR 36 million (2013: EUR 87 million). The default risk of these transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees is set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 34 million (2013: EUR 52 million).

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

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

	31/12/2014			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Amounts due from banks (excluding cash collateral and current accounts)	441	518	14	973
Loans and advances (excluding current accounts)	558	98,427	7,175	106,160
TOTAL FINANCIAL ASSETS (AT AMORTISED COST)	**999**	**98,945**	**7,189**	**107,133**
Amounts due to banks (excluding cash collateral and current accounts)	–	–	1,717	1,717
Debt securities	57,229	50,033	–	107,262
Funds entrusted (excluding current accounts)	–	–	12,402	12,402
Subordinated debts	–	–	50	50
TOTAL FINANCIAL LIABILITIES (AT AMORTISED COST)	**57,229**	**50,033**	**14,169**	**121,431**

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

The financial assets at amortised cost under Level 3 mainly relate to loans and advances subject to solvency requirements to statutory clients of BNG Bank. These assets also include the fair value of the assets that have been reclassified under the balance sheet item Loans and advances since 2008, having previously been recognised under the balance sheet item Financial assets available-for-sale, to the extent revaluation is effected using data that are not publicly observable in the market. Loans and advances to statutory counterparties under government guarantees are included in Level 2 on account of the strong correlation with bonds issued by the Dutch State. The financial liabilities at amortised cost under Level 1 mainly relate to negotiable benchmark bonds issued by BNG Bank. Funds entrusted are classified under Level 3.

32 HEDGING OF RISKS WITH DERIVATIVES

BNG 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 principally hedged with derivatives. The treatment of derivatives and hedged items in the balance sheet and income statement is such that they are aligned as much as possible with the actual economic hedging. For accounting purposes, BNG Bank processes this hedging relationship under IFRS by applying micro and portfolio fair value hedging, as well as cash flow hedging. The paragraph on accounting principles describes the conditions that need to be met before these forms of hedge accounting can be applied.

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

BNG Bank also applies (micro) cash flow hedge accounting to virtually all long-term funding transactions in foreign currencies in order to protect the bank's result against possible variability in future cash flows due to exchange rate fluctuations. The basis swap spread is an important building block of the value of a cross-currency (interest rate) swap. Therefore, if seen as a separate financial instrument, the fair value of these swaps is influenced by the change in the basis swap spread. However, this change has no economic effect on the bank and it, in principle, never will as the bank will generally retain the contracts until their maturity. With the exception of voluntary early redemption of funding in foreign currencies or an immediate and complete withdrawal from the banking business, there are no circumstances under which these negative revaluations can lead to a realised result. Nevertheless the bank is obligated under IFRS to recognise the change in the instrument's fair value in its accounts. The effects of this accounting mismatch must be recognised in the income statement as value adjustments to derivatives. With the use of cash flow hedge accounting, the effective part of the cash flow hedge is recognised in a cash flow hedge reserve

112 ◄ 216 ◄

in equity. The interest results of both the hedging instrument and the hedged item are accounted for in the same period in the income statement.

In portfolio fair value hedging (PH), the interest rate risks of a group of transactions 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, the effectiveness of portfolio hedging, like that of micro hedging, has been almost perfect in recent years. As of 2014 the effectiveness has been improved further by the decision to involve cash flows with a maturity of less than one year, which can be allocated in a hedge accounting relationship, in portfolio hedging. Any ineffectiveness that occurs is recognised in the income statement. The revaluation of hedged PH items is accounted for in the balance sheet item Other financial assets. In both types of hedge accounting, the derivatives in question are measured at fair value and included in the Other financial assets and Other financial liabilities items.

Although BNG Bank uses derivatives for economic hedging purposes, it is not possible in all cases to include these in a hedge accounting relationship, as permitted by IFRS. The fair value of the derivatives that are not involved in a hedge accounting relationship is stated in the balance sheet item Financial assets at fair value through the income statement if the value is positive, or the balance sheet item Financial liabilities at fair value through the income statement if the value is negative. For the few derivatives that are not involved in a hedge accounting relationship, in virtually all cases there is an economic hedged item which is also recognised at fair value through the income statement so that, on balance, the volatility of the result (due to interest rate and foreign exchange risks) is limited.

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

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

	31/12/2014		31/12/2013	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
DERIVATIVES INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP				
OTHER FINANCIAL ASSETS *				
Swaps	108,711	15,278	81,238	8,273
	108,711	**15,278**	**81,238**	**8,273**
OTHER FINANCIAL LIABILITIES				
Swaps	107,445	−25,357	115,014	-15,086
	107,445	**−25,357**	**115,014**	**−15,086**

Continued on next page

* Excluding the value of hedged risk of EUR 16,044 million positive (2013: EUR 7,601 million positive).

Continuation of previous page	31/12/2014		31/12/2013	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
DERIVATIVES NOT INVOLVED IN A HEDGE ACCOUNTING RELATIONSHIP				
FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	8,482	631	8,792	1,000
Forwards	15,028	879	2,335	64
Options	325	12	360	9
	23,835	**1,522**	**11,487**	**1,073**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT				
Swaps	3,029	−1,036	5,127	−1,081
Forwards	385	−4	11,710	−298
Options	3,037	−210	748	−222
	6,451	**−1,250**	**17,585**	**−1,601**

BNG Bank receives collateral from counterparties with respect to credit risk on derivatives. As at 31 December 2014 this collateral amounted to EUR 878 million (2013: EUR 422 million).

33 RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

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

Mr C. van Eykelenburg was granted a loan in 2008. The amount outstanding at year-end was EUR 703,620 (2013: EUR 705,847). The average interest rate on the loan is 4.3% (2013: 4.3%). The loan was granted under BNG Bank's standard staff terms and conditions.

BNG BANK'S PRINCIPAL DECISION-MAKING BODIES

The most important decisions and acts of management are taken and carried out by the Executive Board. The policy pursued is assessed and supervised by the Supervisory Board.

REMUNERATION OF THE EXECUTIVE BOARD

The remuneration of the Executive Board is based on the principles formulated in the Remuneration Policy, the highlights of which are included in the Report of the Supervisory Board. The complete Remuneration Policy is published on bngbank.nl. The remuneration of the Executive Board consists of a fixed and a variable component. Since 2002, the fixed remuneration component has only been adjusted by the percentages set out in the collective labour agreement for the general banking industry. Management and staff do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

25 282

REMUNERATION AWARDED TO EXECUTIVE BOARD MEMBERS
(amounts in thousands of euros)

	2014	2013	2014	2013	2014	2013	2014	2013
	FIXED REMUNERATION (A)		VARIABLE REMUNERATION[1] (B)		TOTAL SHORT-TERM REMUNERATION (A+B)		PENSION CONTRIBUTIONS	
C. van Eykelenburg	448	448	32	52	480	500	148	153
J.J.A. Leenaars	362	375	24	39	386	414	123	129
J.C. Reichardt	356	356	25	41	381	397	65	69
TOTAL	1,166	1,179	81	132	1,247	1,312	336	351

DEFERRED VARIABLE REMUNERATION
(amounts in thousands of euros)

	2014	2013	2012	2011[2]	2010[2]
DEFERRED VARIABLE REMUNERATION					
C. van Eykelenburg	32	52	72	72	75
J.J.A. Leenaars	24	39	54	54	56
J.C. Reichardt	25	41	57	57	53
TOTAL	81	132	183	183	184

1 This is one half of the variable remuneration. The other half of the variable remuneration is awarded conditionally and paid out in three years' time, provided the achievement of the associated targets has not jeopardised BNG Bank's long-term continuity. Assigned – as yet unpaid – variable remuneration can also be adjusted on the grounds of (incorrect) financial information, or unethical or non-compliant behaviour.

2 The deferred provisional variable remuneration for 2010 and 2011 was paid in January 2014 and January 2015 respectively. The Supervisory Board has determined that the achievement of the quantitative and qualitative targets formulated in 2010 and 2011 did not harm the continuity of the bank.

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 2014 includes EUR 2 million (2013: EUR 2 million) in remuneration and pension costs.

The variable remuneration for 2014 has been capped at 25% (2013: 25%) of the defined components of the fixed remuneration. The award of the variable remuneration depends on the degree to which the objectives set by the Supervisory Board have been achieved. Following the Selection and Appointment Committee's advice, the Supervisory Board determined the degree to which the 2014 variable remuneration targets were met by the Executive Board members. Detailed information on this is included in the Report of the Supervisory Board to the shareholders. The achievement of the 2014 variable remuneration targets resulted in an allowance of 57% of the maximum variable remuneration (2013: 93%). The Executive Board members received an allowance for business expenses of EUR 3,900 in 2014 (2013: EUR 3,900). This allowance will not be adjusted in 2015.

In 2014, BNG Bank charged a crisis levy of EUR 149,181 (2013: EUR 157,068) to the income statement. This levy, which relates to the remuneration for the Executive Board, is an additional employer's contribution and forms no part of the Executive Board's remuneration.

SUPERVISORY BOARD REMUNERATION

The remuneration of the Supervisory Board was amended by the General Meeting of Shareholders in 2011, effective from 1 January 2012. The policy is directed towards market-compatible remuneration that is irrespective of the company's result. It also reflects the nature of the company, the envisaged quality of the Supervisory Board members, the required availability for the task at hand, as well as the time required and aspects of responsibility and liability. Supervisory Board members do not own BNG Bank shares or options and receive no additional remuneration through subsidiaries of the bank.

Members of the Supervisory Board who were appointed or resigned during the financial year received pro rata remuneration. Members of the Audit & Risk Committee, the Selection and Appointment Committee, the Remuneration Committee and the Market Strategy Committee received an additional allowance for these duties. Furthermore, the Chairman of the Supervisory Board received an allowance in addition to the basic remuneration.

These allowances are set out in the 'Remuneration of Supervisory Board members' statement. The Supervisory Board members received an expense allowance of EUR 1,000 (2013: EUR 1,000). Members who sat on one or more committees received an additional expense allowance per committee of EUR 500 (Audit & Risk Committee, Market Strategy Committee) and EUR 250 (Remuneration Committee, Selection and Appointment Committee), respectively.

Former Supervisory Board members received no remuneration. In 2014 and 2013, the bank did not charge any crisis levy to the income statement that is related to the Supervisory Board's remuneration.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

(amounts in thousands of euros)*

	2014	2013
H.O.C.R. Ruding, Chairman	36	36
Ms S.M. Dekker, Vice-Chair and Secretary	32	32
H.H. Apotheker	9	26
Ms H.G.O.M. Berkers	–	12
C.J. Beuving	22	–
L.M.M. Bolsius	20	–
T.J.F.M. Bovens	26	26
W.M. van den Goorbergh	35	35
Ms P.H.M. Hofsté	29	22
Ms J. Kriens	20	–
J.J. Nooitgedagt	29	29
R.J.J.M. Pans	9	26
Ms M. Sint	30	26
TOTAL	297	270

* Including additional allowances and excluding expense allowances and VAT.

34 CONTINGENT LIABILITIES

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

	31/12/2014	31/12/2013
Contingent liabilities	172	188

35 IRREVOCABLE FACILITIES

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

	31/12/2014	31/12/2013
Master agreements concerning the unutilised part of credit facilities	4,228	3,997
Contracted loans and advances to be distributed in the future	1,098	1,928
TOTAL	5,326	5,925

172 ◀ 189 ◀

According to contract, these contracted loans and advances will be distributed as follows:

	31/12/2014	31/12/2013
Up to 3 months	611	905
3 – 12 months	367	762
1 – 5 years	120	261
TOTAL	1,098	1,928

Nearly all these loans and advances have a contractual term to maturity of more than five years. The average interest rate is 1.5% (2013: 2.6%). BNG Bank also states these obligations at the underlying, not yet recorded, principal amount.

36 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 values and the collateral values.

172

TYPE OF COLLATERAL	31/12/2014 NOMINAL VALUE	31/12/2014 COLLATERAL VALUE	31/12/2013 NOMINAL VALUE	31/12/2013 COLLATERAL VALUE
Collateral pledged to the central banks*	13,715	9,734	12,796	8,806
Securities pledged to other financial institutions	15	24	15	23
Securities provided in repurchase transactions	425	522	2,742	2,929
Securities provided in derivative transactions	1,425	2,157	2,003	2,169
Cash deposited in relation to derivatives	10,089	10,089	5,982	5,983
GIVEN AS COLLATERAL	**25,669**	**22,526**	**23,538**	**19,910**
Securities received in reverse repurchase transactions	1,109	1,111	–	–
Securities received in derivative transactions	17	19	–	–
Cash received in relation to derivatives	878	878	422	422
RECEIVED AS COLLATERAL	**2,004**	**2,008**	**422**	**422**
TOTAL	**23,665**	**20,518**	**23,116**	**19,488**

* Of the total value of assets given as collateral to the central bank ('collateral deposited'), only a limited part has actually been used as collateral by the central bank ('collateral in use'). At year-end 2014, the value of the collateral in use under the guarantee for clients' collection files amounted to EUR 615 million (year-end 2013: EUR 0 million).

37 LIABILITY OF BOARD MEMBERS

Members of the Executive and Supervisory Boards of the company are indemnified by the company against any personal liability, except in the case of deliberate intent or gross negligence. In addition, the company has taken out a directors' liability insurance policy for members of the Executive and Supervisory Boards and employees acting on the company's behalf as members of the Executive Board or Supervisory Board of one or more of the company's associates.

38 EVENTS AFTER THE BALANCE SHEET DATE

Early March 2015 saw the publication of the results of a balance sheet test of the former Hypo Alpe-Adria-Bank. The conclusion was that a capital deficit had arisen with a bandwidth of EUR 4 billion to EUR 8 billion. The Austrian State declared that it was not prepared to provide additional funds for this 'wind down entity' HETA. The Austrian Financial Market Authority (FMA) took over HETA and determined that HETA was in resolution under the new Austria Bank Recovery and Resolution Act. The scope of the Act has been extended to ensure that the lenders pay part of the costs of resolving entities such as HETA. In addition, the FMA imposed a moratorium on the payment by HETA of its interest and repayment obligations effective until 31 May 2016. This means that during that period, HETA will not meet its payment obligations in the amount of approximately EUR 1 billion.

BNG Bank holds a senior unsecured bond with a face value of EUR 125 million guaranteed by the federal state of Carinthia. The guarantee explicitly states that following the resolution of HETA, the holder of the bond will be able to recover unpaid claims from this federal state and that interest must be paid for the period between the maturity date and the payment date.

These statements have caused considerable confusion about the value of the claims against HETA and the corresponding guarantees from the federal state of Carinthia. In the first week of March 2015 the market value of debt securities issued by HETA was highly volatile. After an extensive analysis, BNG Bank concluded that there was no reason to recognise an impairment as at year-end 2014. By that date HETA had satisfied all its payment obligations, the coupon that matured in January 2015 was paid in full and in time and there were no signs that HETA

166

would be unable to meet it future payment obligations, all the more so as the Austrian government would probably want to avoid a bankruptcy and it was expected that the guarantor would meet its obligations. The bank has therefore qualified the announced moratorium as a 'non adjusting subsequent event'.

Under IFRS, an impairment must be recognised when there are reasonable doubts as to the debtor's ability to meet its payment obligations. The bank expects that the federal state of Carinthia will meet its obligations under the guarantee, possibly with support from the Austrian central government. Even so, this situation is very likely to result in the need for the bank to recognise an impairment in the 2015 income statement. Since this bond is classified under Financial assets available-for-sale, the possible write-down equals the difference between its face value and its market price. At year-end 2014 this price equalled approximately 70% of the face value, compared with around 50% in the first week of March 2015.

39 LONG-TERM CAPITALISATION AND DIVIDEND POLICY

The capitalisation and dividend policy must be considered in light of the upcoming changes in Basel prudential regulations that compel banks to retain more capital. The new regulations as well as the current capitalisation, relative to the agreed minimum standards, resulted in the standard dividend payout percentage being lowered from 50% to 25% as of the financial year 2011. The lowering of the standard payout percentage will apply, in principle, to the period until 2018, which is the year in which the bank will have to comply with the new minimum leverage ratio, but will be reconsidered as soon as clarity is obtained on the final shape and level of the leverage ratio, or in the unlikely event that expectations on growth and/or result are not met. In 2014 BNG Bank updated its plan for meeting the minimum standard for the leverage ratio (3%) by the end of 2017 at the latest. The plan has also been made available to the supervisory authorities.

40 INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND JOINT OPERATIONS

	31/12/2014	31/12/2013
ASSOCIATES		
Dataland BV, Rotterdam	30%	30%
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.		
Data B Mailservice Holding BV, Leek	45%	45%
Provision of services to, among others, public sector organisations, ranging from printing and mail services to payment-related, direct marketing and messaging services.		
NV Trustinstelling Hoevelaken, The Hague	40%	40%
Acceptance and administration of rights of pledge and other collaterals.		

Continued on next page

114 123 134 265 282

Continuation of previous page

	31/12/2014	31/12/2013
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Joint development and allocation of land with public authorities, at own expense and risk. The parties involved in the joint ventures have equal voting rights, which means that no single party has control.		
Ontwikkelingsmaatschappij Jachthaven Drimmelen CV, Drimmelen	50%	50%
Ontwikkelingsmaatschappij Jachthaven Drimmelen Beheer BV, Drimmelen	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg CV, Nederweert	50%	50%
Ontwikkelingsbedrijf Bedrijvenpark Pannenweg Beheer BV, Nederweert	50%	50%
Development and allocation of land for industrial estates		
CV Ontwikkelingsmaatschappij Zenkeldamshoek, Goor	80%	80%
Zenkeldamshoek Beheer BV, Goor	50%	50%
Development and allocation of land for industrial estates		
De Bulders Woningbouw CV	80%	50%
De Bulders Woningbouw BV	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij Westergo CV, Harlingen	44%	41%
Ontwikkelingsmaatschappij Westergo BV, Harlingen	50%	50%
Development and allocation of land for industrial estates		

Continued on next page

Continuation of previous page

	31/12/2014	31/12/2013
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Haventerrein Westzaan CV, Zaanstad	30%	30%
Bedrijventerrein Westzaan Noord CV, Zaanstad	40%	40%
Ontwikkelingsbedrijf Haventerrein Westzaan BV, Zaanstad	50%	50%
Development and allocation of land for industrial estates		
Ruimte voor Ruimte CV I, 's-Hertogenbosch	24%	24%
Ruimte voor Ruimte CV II, 's-Hertogenbosch	24%	24%
Ruimte voor Ruimte Beheer BV, 's-Hertogenbosch	24%	24%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' CV, The Hague	50%	50%
Ontwikkelingsmaatschappij 'Het Nieuwe Westland' BV, The Hague	50%	50%
Development and allocation of land for residential construction		
Ontwikkelingsmaatschappij ROM-S CV (Schelluinen), The Hague	50%	50%
ROM-S Beheer BV (Schelluinen), The Hague	50%	50%
Development and allocation of land for industrial estates and car parking facilities		
Project Suijssenwaerde CV, The Hague	80%	80%
Project Suijssenwaerde Beheer BV, The Hague	50%	50%
Development and allocation of land for residential construction and recreational housing		

Continued on next page

Continuation of previous page

	31/12/2014	31/12/2013
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
CV Bedrijvenpark Oostflakkee, The Hague	80%	80%
Bedrijvenpark Oostflakkee Beheer BV, The Hague	50%	50%
Development and allocation of land for industrial estates		
SGN Bestaand Rijsenhout CV, The Hague	50%	
SGN Nieuw Rijsenhout CV, The Hague	50%	50%
SGN Advies CV, The Hague	43%	
SGN Bestaand Rijsenhout Beheer BV, The Hague	50%	–
SGN Nieuw Rijsenhout Beheer BV, The Hague	50%	–
SGN Advies BV Beheer, The Hague	50%	–
Stallingsbedrijf Glastuinbouw Nederland Groep BV, The Hague	50%	50%
Development and allocation of land for glasshouse horticulture locations		
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder CV, Bleiswijk	–	33%
Glastuinbouwontwikkelingsmaatschappij Overbuurtse Polder Beheer BV, Bleiswijk	–	33%
Development and allocation of land for glasshouse horticulture locations		
Ontwikkelmaatschappij Meerburg CV, Zoeterwoude	50%	50%
Ontwikkelmaatschappij Meerburg Beheer BV, Zoeterwoude	50%	50%
Development and allocation of land for residential construction, sports fields and office buildings		

Continued on next page

Continuation of previous page

	31/12/2014	31/12/2013
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Ontwikkelcombinatie De Bongerd CV, Amsterdam	14%	14%
Ontwikkelcombinatie De Bongerd BV, Amsterdam	14%	14%
Real estate development for residential construction and parking facilities		
Sportstad Heerenveen Grondexploitatie CV, Heerenveen	50%	50%
Sportstad Heerenveen Grondexploitatie BV, Heerenveen	50%	50%
Development and allocation of land for, and operation of, sports fields		
Regionaal bedrijvenpark Laarakker CV, Cuijk	50%	50%
Regionaal bedrijvenpark Laarakker BV, Cuijk	50%	50%
Development and allocation of land for industrial estates		
Wonen Werken Waterman BV, Rijsbergen	50%	50%
Wonen Werken Waterman CV, Rijsbergen	50%	50%
Development and allocation of land for residential construction and industrial estates		
Waalwaardwonen CV, Zaltbommel	50%	50%
Waalwaardwonen BV, Zaltbommel	50%	50%
Development and allocation of land for residential construction and industrial estates		
De Jonge Voorn BV, Guisveld (Zaandam)	80%	80%
De Jonge Voorn CV, Guisveld (Zaandam)	80%	80%
Development and allocation of land for residential construction		

Continued on next page

Continuation of previous page	31/12/2014	31/12/2013
BiesboschMarinaDrimmelen Vastgoedontwikkeling CV, Drimmelen	–	50%
BiesboschMarinaDrimmelen Vastgoedontwikkeling Beheer, te Drimmelen	–	50%
Construction of recreational housing (in liquidation)		
JOINT OPERATIONS ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Vastgoedontwikkeling Handelskade OudeTonge VOF, Oude Tonge	50%	50%
Construction of recreational housing and shops		

41 SUMMARISED FINANCIAL INFORMATION

	2014	2013
ASSOCIATES		
Balance sheet value of investment (note 6)	2	2
VALUE OF THE SHARE IN:		
Total assets	5	4
Total liabilities	2	2
Income	12	8
Result from continued operations	1	1
Equity	3	2
Comprehensive income	4	3

114 123 265

	2014	2013
JOINT VENTURES ENTERED INTO BY BNG GEBIEDSONTWIKKELING BV		
Balance sheet value of investment (note 6)	52	51
BALANCE SHEET VALUE OF THE SHARE IN:		
Total assets	133	151
Total liabilities	103	103
Income	11	9
Result from continued operations	–12	–8
Equity	30	48
Comprehensive income	18	40

INVOLVEMENT IN NON-CONSOLIDATED STRUCTURED ENTITIES

					2014
	BNG DEPOSITO FONDS	BNG KAPITAAL-MARKT FONDS	SECURITI-SATIONS	COVERED BONDS	TOTAL
Size of entity (balance sheet total)	439	262	33,552	27,480	61,734
Involvement in entity (balance sheet value/size in %)	16%	4%	9%	3%	6%
BALANCE SHEET VALUE OF INTEREST/INVESTMENT:					
– Amounts due from banks (note 2)	–	–	–	–	–
– Loans and advances (note 2)	–	–	1,151	544	1,695
– Financial assets at fair value through the income statement (note 4)	–	–	290	247	537
– Financial assets available-for-sale (note 5)	70	10	1,583	39	1,702
TOTAL BALANCE SHEET VALUE	**70**	**10**	**3,024**	**830**	**3,934**

Continued on next page

Continuation of previous page

2014	BNG DEPOSITO FONDS	BNG KAPITAAL-MARKT FONDS	SECURITI-SATIONS	COVERED BONDS	TOTAL
Maximum exposure*	70	10	3,024	830	3,934
Ratio of balance sheet value vs exposure	1	1	1	1	1
AMOUNT IN REVENUE PER TYPE:					
– Fund performance	–	–	–	–	–
– Management fee	2	1	–	–	3
– Interest income	–	–	15	27	42
– Results from sales	–	–	–	–	–
TOTAL REVENUE	**2**	**1**	**15**	**27**	**45**
LOSS ON INVESTMENT DURING REPORTING PERIOD:					
– Through equity	1	–	–	–	1
– Through the income statement	–	–	–	–	–
TOTAL LOSSES	**1**	**–**	**–**	**–**	**1**

* BNG Bank’s balance sheet value.

INVOLVEMENT IN NON-CONSOLIDATED INVESTMENT FUNDS

The investment funds are managed by BNG Vermogensbeheer and were established as unit trusts which invest at the risk and expense of their participants. The investment objective of the funds is to obtain the highest possible risk-weighted return relative to their liabilities through the careful selection of credit and interest rate risks.
The funds invest in fixed-interest securities and in investments in which the principal is guaranteed, or derivative instruments thereof, in accordance with the Local and Regional Authorities (Funding) Act, the Borrowing and Derivatives (Local and Regional Authorities) Regulations and the Investment and Pledging Regulations. Other than through its participating interests in these investment funds, BNG Bank has not financed these funds nor supported them in any other way, nor does the bank have any intention to do so in the near future.

The investment funds pursue a policy of mixed investment in sustainable fixed-interest securities (including covered bonds and bonds of financial institutions) and investments in which the principal is guaranteed. These investments are issued or guaranteed in part by European governments and supranational institutions. The fund is fully financed through its participants' contributions and did not experience any financing problems in 2014. No assets have been transferred to the funds. The investment funds do not pay a performance fee, but they do pay a management fee to the fund manager.

BNG DEPOSITO FONDS

This investment fund has participating interests in Fixed-Term Tranches (VLT), Equalisation I Tranches (ETI) and Equalisation II Tranches (ETII). ETI and ETII concern the risk capital (the fund's net assets). The VLT have the character of deposits. The participants are exposed, each in proportion to its interest, to the fund performance on the investment in the participating interests concerned. However, the ETI and ETII participants are subordinate. They will incur the first losses before the VLT participants are affected. Profits will first accrue to the VLT participants, up to the level of a forecast return.

BNG Bank has participating interests in the BNG Deposito Fonds. At year-end 2014, the bank's exposure amounted to EUR 70 million (share in the fund), of which EUR 65 million in the form of risk capital. In 2014 the bank incurred a loss on its share in the fund of EUR 1 million through equity. The bank received a management fee of EUR 2 million for 2014.

BNG KAPITAALMARKT FONDS

This investment fund consists of sub-funds whose equity is segregated. The participants are exposed, each in proportion to its interest, to the sub-fund performance and to the risk on the investment in the relevant participating interests of the sub-fund.

BNG Bank has participating interests in the BNG Kapitaalmarkt Fonds. At year-end 2014, the bank's exposure amounted to EUR 10 million (share in the fund's assets). In 2014 the bank did not incur any loss on its share in the fund. The bank received a management fee of EUR 1 million for 2014.

INVOLVEMENT IN NON-CONSOLIDATED SECURITISATIONS AND COVERED BOND STRUCTURED ENTITIES

BNG Bank has investments in securitisations and covered bonds issued by non-consolidated structured entities. Other than through its interest as investor in interest-bearing securities, BNG Bank has not financed these entities nor supported them in any other way, nor does the bank have any intention to do so in the near future. The bank has not transferred any assets to these entities.

Mortgage portfolios serve as collateral for the securitisations and covered bonds. The funds invested by investors, including BNG Bank, serve to finance the banks that have provided 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.

At year-end 2014 the bank's exposure to investments in securitisations and covered bonds amounted to EUR 3.0 billion and EUR 0.8 billion respectively. In the course of 2014 the bank did not incur any loss on its investment in these securities and generated EUR 42 million in interest income.

The Hague, 6 March 2015

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN

MS S.M. DEKKER, VICE-CHAIRMAN (AND SECRETARY)

C.J. BEUVING

L.M.M. BOLSIUS

T.J.F.M. BOVENS

W.M. VAN DEN GOORBERGH

MS P.H.M. HOFSTÉ

MS J. KRIENS

J.J. NOOITGEDAGT

MS M. SINT

Company financial statements

COMPANY BALANCE SHEET

Amounts in millions of euros

	31/12/2014	31/12/2013
ASSETS		
Cash and balances with the central banks [1]	2,241	1,467
Amounts due from banks [2]	11,046	8,509
Financial assets at fair value through the income statement [3]	4,247	3,530
Other financial assets [4]	31,322	15,874
Financial assets available-for-sale [5]	13,688	9,592
Loans and advances [2]	90,700	92,044
Participating interests [6]	70	68
Property and equipment [7]	16	17
Other assets [8, 9]	152	51
TOTAL ASSETS	**153,482**	**131,152**
LIABILITIES		
Amounts due to banks [10]	2,544	3,939
Financial liabilities at fair value through the income statement [11]	3,327	3,553
Other financial liabilities [12]	25,357	15,086
Debt securities [13]	106,069	94,828
Funds entrusted [10]	12,313	10,024
Subordinated debts [10]	32	32
Other liabilities [8, 9]	253	265
Total liabilities	149,895	127,727
Equity [14]	3,587	3,425
TOTAL LIABILITIES AND EQUITY	**153,482**	**131,152**

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

COMPANY INCOME STATEMENT

Amounts in millions of euros

	2014		2013	
– Interest income [15]	1,255		1,511	
– Interest expenses [16]	813		982	
Interest result		442		529
Results from participating interests [17]		9		2
– Commission income [18]	30		22	
– Commission expenses [19]	5		4	
Commission result		25		18
Result on financial transactions [20]		–187		–5
Other results [21]		1		1
TOTAL INCOME		**290**		**545**
– Staff costs [22]	34		32	
– Other administrative expenses [23]	25		23	
Staff costs and other administrative expenses		59		55
Depreciation [24]		2		2
TOTAL OPERATING EXPENSES		**61**		**57**
Impairments [25]		10		51
Bank levy [26]		30		33
PROFIT BEFORE TAX		**189**		**404**
Taxes [9]		–53		–115
NET PROFIT		**136**		**289**

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

COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

	2014			2013		
NET PROFIT			136			289
Recyclable results recognised directly in equity:						
Changes in cash flow hedge reserve		43			401	
Changes in the revaluation reserve for financial assets available-for-sale:						
– unrealised value changes	66			101		
– realised value changes transferred to the income statement	−12			−24		
		54			77	
		97			478	
Non-recyclable results recognised directly in equity:						
Changes in actuarial results		0			0	
RESULTS RECOGNISED DIRECTLY IN EQUITY			97			478
TOTAL			233			767

COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

Page 1/2

	2014		2013	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	189		404	
Adjustments for:				
– Depreciation	2		2	
– Impairments	10		51	
– Unrealised results through the income statement	198		32	
Cash flow generated from operations		399		489
Changes in amounts due from and due to banks (not due on demand)	–4,150		–464	
Changes in loans and advances	783		1,326	
Changes in funds entrusted	1,184		–1,243	
Changes in derivatives	927		–124	
Corporate income tax paid	–128		–216	
Other changes from operating activities	8		–544	
		–1,376		–1,265
TOTAL CASH FLOW FROM OPERATING ACTIVITIES *		**–977**		**–776**
CASH FLOW FROM INVESTING ACTIVITIES				
Investments and acquisitions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	–4,052		–3,973	
– Investments in participating interests	–3		–3	
– Property and equipment	–1		–	
		–4,056		–3,976
Disposals, repayments and redemptions:				
– Financial assets at fair value through the income statement and financial assets available-for-sale	2,077		3,995	
– Property and equipment	–		–	
		2,077		3,995
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**–1,979**		**19**

* Interest received amounted to EUR 5,314 million (2013: EUR 5,550 million) while interest paid amounted to EUR 4,745 million (2013: EUR 5,008 million).

COMPANY CASH FLOW STATEMENT

Amounts in millions of euros

Page 2/2

	2014		2013	
CASH FLOW FROM FINANCING ACTIVITIES				
Amounts received on account of:				
– Debt securities	49,604		54,270	
– Financial liabilities at fair value through the income statement	22		21	
		49,626		54,291
Amounts paid on account of:				
– Debt securities	−45,683		−54,405	
– Financial liabilities at fair value through the income statement	−142		−408	
– Subordinated debts	−3		−2	
– Dividend	−71		−83	
		−45,899		−54,898
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**3,727**		**−607**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**771**		**−1,364**
Cash and cash equivalents as at 1 January		1,469		2,833
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**2,240**		**1,469**
Cash and cash equivalents as at 31 December comprise:				
– Cash and balances with the central banks		2,241		1,467
– Cash equivalents in the Amounts due from banks item		2		2
– Cash equivalents in the Amounts due to banks item		−3		–
		2,240		**1,469**

COMPANY STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	RESERVE FOR FAIR VALUE INCREASES	OTHER RESERVES	UNAPPRO-PRIATED PROFIT	TOTAL
BALANCE AS AT 1 JANUARY 2013	**139**	**6**	**103**	**−69**	**208**	**2,020**	**334**	**2,741**
– Net profit							289	289
– Unrealised results			77	401				478
– Transfer to reserve for fair value increases					116	−116		–
– Dividend payment						−83		−83
– Appropriation from the previous year's profit						334	−334	–
BALANCE AS AT 31 DECEMBER 2013	**139**	**6**	**180**	**332**	**324**	**2,155**	**289**	**3,425**
– Net profit							136	136
– Unrealised results			54	43				97
– Transfer to reserve for fair value increases					−150	150		–
– Dividend payment						−71		−71
– Appropriation from the previous year's profit						289	−289	–
BALANCE AS AT 31 DECEMBER 2014	**139**	**6**	**234**	**375**	**174**	**2,523**	**136**	**3,587**

Accounting principles for the company financial statements

The company financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) and adopted throughout the European Union (EU), and with Part 9, Book 2 of the Dutch Civil Code. As far as the financial accounting principles are concerned, reference is made, with the exception of the accounting principles mentioned below, to the notes to the accounting principles for the consolidated financial statements.

PARTICIPATING INTERESTS

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

STATUTORY RESERVE FOR FAIR VALUE INCREASES

Pursuant to Section 2:390(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.

FOREIGN CURRENCY

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.

The comparative figures are prepared in accordance with the same accounting principles as the 2014 Annual Report. ■

Notes to the company financial statements

Amounts in millions of euros

1 CASH AND BALANCES WITH THE CENTRAL BANKS

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

	31/12/2014	31/12/2013
Current account balances held at central banks (due on demand)	2,241	1,467
Overnight deposits with the central banks (due on demand)	–	–
Short-term deposits with the central banks (not due on demand)	–	–
TOTAL	**2,241**	**1,467**

254

2

AMOUNTS DUE FROM BANKS AND LOANS AND ADVANCES

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

	AMOUNTS DUE FROM BANKS		LOANS AND ADVANCES		TOTAL	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Short-term loans and current accounts	2	2	4,523	5,203	4,525	5,205
Reverse repurchase transactions	501	2,009	501	501	1,002	2,510
Cash collateral	10,090	5,983	–	–	10,090	5,983
Long-term lending	12	17	83,368	83,502	83,380	83,519
Interest-bearing securities	–	–	579	619	579	619
Reclassified available-for-sale transactions	441	498	1,779	2,259	2,220	2,757
Incurred loss provision	–	–	−50	−40	−50	-40
TOTAL	**11,046**	**8,509**	**90,700**	**92,044**	**101,746**	**100,553**

	2014	2013
MOVEMENT IN THE INCURRED LOSS PROVISION:		
Opening balance	−40	−38
Additions during the financial year	−15	−12
Release during the financial year	5	2
Withdrawals during the financial year	0	8
CLOSING BALANCE	**−50**	**−40**

254

3

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2014	31/12/2013
Derivatives	1,522	1,073
Loans and advances	946	915
Securities	1,779	1,542
TOTAL	4,247	3,530

No new loans and advances or securities were included in this item in 2014. The increase in fair value is attributable primarily to the sharp fall in market interest rates. The total redemption value of the loans and advances and securities at year-end 2014 is EUR 1,956 million (2013: EUR 2,007 million).

4

OTHER FINANCIAL ASSETS

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

	31/12/2014	31/12/2013
Derivatives involved in a portfolio hedge accounting relationship	5,172	3,348
Derivatives involved in a micro hedge accounting relationship	10,106	4,925
Market value adjustments of assets hedged at portfolio level	16,044	7,601
TOTAL	31,322	15,874

254

5

FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

	31/12/2014	31/12/2013
Government	8,541	6,415
Supranational organisations	1,212	899
Credit institutions	1,565	1,472
Other financial institutions	1,856	284
Non-financial institutions	417	428
Investments in participating interests	97	94
TOTAL	13,688	9,592

TRANSFERS WITHOUT DERECOGNITION

At year-end 2014, the balance sheet value of the item Financial assets available-for-sale included an amount of EUR 522 million (2013: EUR 2,557 million) in bonds sold under repurchase agreements. At year-end 2014, the value of these repurchase transactions amounted to EUR 510 million (2013: EUR 2,581 million).

254

6 PARTICIPATING INTERESTS

	INTEREST		COST PRICE	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
SUBSIDIARIES				
– BNG Vermogensbeheer BV, The Hague	100%	100%	2	2
– BNG Gebiedsontwikkeling BV, The Hague	100%	100%	66	64
– Hypotheekfonds voor Overheidspersoneel BV, The Hague	100%	100%	1	1
		SUBTOTAL	**69**	**67**
ASSOCIATES				
– Dataland BV, Rotterdam	30%	30%	0	0
– Data B Mailservice Holding BV, Leek	45%	45%	1	1
– NV Trustinstelling Hoevelaken, The Hague	40%	40%	–	0
		SUBTOTAL	**1**	**1**
TOTAL SUBSIDIARIES AND ASSOCIATES		**TOTAL**	**70**	**68**

For a description of subsidiaries, associates and joint ventures, please refer to Appendix A and note 40 of the consolidated financial statements respectively.

For summarised financial information on associates and joint ventures, please refer to note 41 of the consolidated financial statements.

254

7 PROPERTY AND EQUIPMENT

	PROPERTY		EQUIPMENT		TOTAL	
	2014	2013	2014	2013	2014	2013
HISTORICAL COST						
Value as at 1 January	47	47	13	12	60	59
Investments	0	0	1	1	1	1
Disposals	–	–	–	–	–	–
Value as at 31 December	47	47	14	13	61	60
DEPRECIATION						
Accumulated depreciation as at 1 January	32	31	11	10	43	41
Depreciation during the year	1	1	1	1	2	2
Accumulated depreciation as at 31 December	33	32	12	11	45	43
BOOK VALUE AS AT 31 DECEMBER	14	15	2	2	16	17

ESTIMATED USEFUL LIFE	
Buildings	33¹/₃ years
Technical installations	15 years
Machinery and inventory	5 years
Hardware and software	3 years

254

8 OTHER ASSETS AND OTHER LIABILITIES

	31/12/2014	31/12/2013
OTHER ASSETS		
Current tax asset	58	–
Other receivables	94	51
TOTAL OTHER ASSETS	**152**	**51**
OTHER LIABILITIES		
Current tax liability	–	13
Deferred tax liability	224	196
Employee benefits provision	2	2
Other commitments	27	54
TOTAL OTHER LIABILITIES	**253**	**265**

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

The employee benefits provision includes an amount of EUR 1.7 million (31 December 2013: EUR 2.4 million) for the interest rate discount on mortgage loans to both active and retired employees. This provision has a long-term character. With effect from 1 January 2014, the employee benefits provision includes a EUR 0.7 million provision for vitality leave.

254

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:

	2014	2013
EMPLOYEE BENEFITS PROVISION		
Net liability as at 1 January	2	2
Movements in the provision	0	0
NET LIABILITY AS AT 31 DECEMBER	**2**	**2**

9 TAXES

BNG Bank and the Dutch tax authorities have concluded a bilateral agreement ('vaststellingsovereenkomst') for the period 2013 – 2014. In 2014 this agreement was extended to cover the period 2015 – 2017. The 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 available-for-sale. All transactions within this category are valued for tax purposes at the lower of either the cost price or the market value. The 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.

254 255 267

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

	2014	2013
Profit before tax	189	404
Tax levied at the nominal tax rate	−47	−101
Tax adjustment from previous years	−1	0
Results from participating interests exempt from taxation	2	−6
Non-deductible costs (bank levy)	−7	−8
EFFECTIVE TAX IN THE COMPANY INCOME STATEMENT	**−53**	**−115**
Nominal tax rate	25.0%	25.0%
Effective tax rate	28.1%	28.6%

	2014			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	1	–	–	1
Financial assets available-for-sale	–87	–14	–	–101
Cash flow hedge reserve	–110	–15	–	–125
Employee benefits	0	–	1	1
TOTAL	**–196**	**–29**	**1**	**–224**

	2013			
	OPENING BALANCE	CHANGES THROUGH EQUITY	CHANGES THROUGH THE INCOME STATEMENT	CLOSING BALANCE
CHANGES IN DEFERRED TAXES				
Fiscal treatment of opening balance sheet	2	–	–1	1
Financial assets available-for-sale	–64	–23	–	–87
Cash flow hedge reserve	23	–133	–	–110
Employee benefits	0	–	0	0
TOTAL	**–39**	**–156**	**–1**	**–196**

10 AMOUNTS DUE TO BANKS, FUNDS ENTRUSTED AND SUBORDINATED DEBTS

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

	31/12/2014	31/12/2013
Current account	1,727	1,822
Deposits from banks	1,207	848
Other deposits	2,128	1,208
Cash collateral	878	422
Private loans	8,407	7,082
Repurchase transactions	510	2,581
Subordinated debts	32	32
TOTAL	**14,889**	**13,995**

11 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

	31/12/2014	31/12/2013
Derivatives	1,250	1,601
Debt securities	1,455	1,442
Private interest-bearing securities	622	510
TOTAL	**3,327**	**3,553**

254

The total redemption value of the debt securities and funds entrusted at year-end 2014 is EUR 1,715 million (2013: EUR 1,652 million).

12 OTHER FINANCIAL LIABILITIES

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

	31/12/2014	31/12/2013
Derivatives involved in a portfolio hedge accounting relationship	22,297	11,795
Derivatives involved in a micro hedge accounting relationship	3,060	3,291
TOTAL	**25,357**	**15,086**

13 DEBT SECURITIES

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

	31/12/2014	31/12/2013
THIS BALANCE SHEET ITEM IS COMPRISED AS FOLLOWS:		
Bond loans	90,858	81,723
Commercial Paper	15,211	13,105
TOTAL	**106,069**	**94,828**

254

14 EQUITY

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

	31/12/2014	31/12/2013
Share capital	139	139
Share premium reserve	6	6
Statutory reserves:		
– Revaluation reserve	234	180
– Cash flow hedge reserve	375	332
– Reserve for fair value increases	174	324
Other reserves	2,523	2,155
Unappropriated profit	136	289
TOTAL	**3,587**	**3,425**

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. There are no issued shares that are not fully paid up. BNG Bank holds no company shares. None of the shares carry preferential rights, nor are they subject to restrictions. There are no options that can be exercised to obtain entitlement to the issue of shares.

SHARE PREMIUM RESERVE

There were no movements in 2014.

254

STATUTORY RESERVES

BNG Bank's statutory reserves consist of the revaluation reserve, the cash flow hedge reserve and the reserve for fair value increases.

REVALUATION RESERVE

The revaluation reserve includes unrealised changes in fair value, excluding the value of the hedged part of the interest-rate risk of interest-bearing securities involved in hedge accounting, which are recognised in the Financial assets available-for-sale item. Upon sale of these assets, the associated cumulative result recognised in equity is transferred to the income statement. At year-end 2014, EUR 21 million (2013: EUR 13 million) of the revaluation reserve was associated with equity instruments.

CASH FLOW HEDGE RESERVE

With the use of cash flow hedging accounting, the possible variability in future cash flows is hedged. The effective part of changes in the fair value of derivatives, resulting from changes in the cross-currency basis spread, is not recognised in the income statement but in the cash flow hedge reserve in equity. The maximum remaining maturity runs up to 40 years, with the largest concentrations of remaining maturities varying between 1 and 5 years, in line with the maturities of the long-term funds in foreign currency involved in hedge accounting. In determining the freely distributable profit (unappropriated profit), a negative cash flow hedge reserve must be offset against the freely distributable reserves (other reserves).

RESERVE FOR FAIR VALUE INCREASES

This reserve concerns the positive difference between the fair value and the amortised cost of financial instruments stated as assets in the balance sheet for which there is no regular market quotation. This statutory reserve is maintained for capital protection purposes at the expense of the freely distributable reserves (other reserves) or freely distributable profit (unappropriated profit).

OTHER RESERVES

After determination of the appropriations of the distributable profit pursuant to the Articles of Association, the General Meeting of Shareholders decides which portion of the remaining profit is added to the reserves.

UNAPPROPRIATED PROFIT

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

15 INTEREST INCOME

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

	2014	2013
Financial assets at fair value through the income statement	60	61
Derivatives not involved in a hedge accounting relationship	123	260
Derivatives involved in a fair value hedge accounting relationship	−2,202	−2,181
Financial assets available-for-sale not involved in a hedge accounting relationship	6	7
Financial assets involved in a hedge accounting relationship	3,070	3,201
Financial assets at amortised cost	160	162
Other interest income	38	1
TOTAL	**1,255**	**1,511**

The interest income for 2014 includes an amount of EUR 0.2 million (2013: EUR 1.3 million) in interest revenues for financial assets, concerning Loans and advances (note 2), and Financial assets available-for-sale (note 5), which were subject to impairment.

255

16 INTEREST EXPENSES

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

	2014	2013
Financial liabilities at fair value through the income statement	71	81
Derivatives not involved in a hedge accounting relationship	80	177
Derivatives involved in a hedge accounting relationship	−1,810	−1,995
Financial liabilities involved in a hedge accounting relationship	2,223	2,367
Financial liabilities at amortised cost	244	352
Other	5	0
TOTAL	**813**	**982**

17 RESULTS FROM PARTICIPATING INTERESTS

This item includes the results from participating interests.

	2014	2013
Associates	0	0
Subsidiaries	9	2
TOTAL	**9**	**2**

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

255

18 COMMISSION INCOME

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

	2014	2013
BREAKDOWN OF COMMISSION INCOME:		
– Income from loans and credit facilities	19	12
– Income from payment services	11	10
TOTAL	**30**	**22**

19 COMMISSION EXPENSES

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

20 RESULT ON FINANCIAL TRANSACTIONS

This item relates to realised and unrealised results from value changes of financial instruments measured at fair value, with changes in fair value recognised through the income statement. These are offset nearly entirely by changes in the market value of the relating derivatives. This item also includes the results from sales of financial assets available-for-sale. In addition, this item includes the changes in the market value adjustments due to counterparty credit risk (Credit Valuation Adjustment, CVA) and adjustments for own credit risk (Debit Valuation Adjustment, DVA) for all derivative transactions with clients and financial counterparties without a daily or with a limited exchange of collateral.

255

	2014	2013
MARKET VALUE CHANGES OF FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS, CONSISTING OF:		
– Interest-bearing securities	−112	−12
– Derivatives without daily exchange of collateral (CVA/DVA)	−51	3
– Structured loans	3	19
	−160	**10**
RESULT FROM HEDGE ACCOUNTING		
– Financial assets involved in a fair value hedge accounting relationship	9,785	−4,147
– Financial liabilities involved in a micro fair value hedge accounting relationship	−6,683	6,164
– Derivatives involved in a hedge accounting relationship	−3,065	−2,058
	37	**−41**
RESULT OF THE TRANSITION TO OIS VALUATION OF DERIVATIVES WITH DAILY EXCHANGE OF COLLATERAL	**–**	**−27**
RESULTS FROM SALES OF FINANCIAL ASSETS AVAILABLE-FOR-SALE	**12**	**26**
OTHER MARKET VALUE CHANGES	**−76**	**27**
TOTAL	**−187**	**−5**

The result on financial transactions in 2014 was negatively influenced by unrealised results, arising from, among other things:

- increased credit and liquidity risk spreads of a number of interest-bearing securities in the Financial assets at fair value through the income statement item; and
- the use of more conservative parameters in the model-based valuation of structured interest-bearing securities in response to the results of the ECB's balance sheet test; and
- the increase in counterparty risk for derivatives and the fact that, with effect from 2014, the CVA and DVA are taken into account in determining the fair value of all derivative transactions; and
- revaluations of derivatives not involved in a hedge accounting relationship.

The result on financial transactions was positively influenced by the realised results on the sale of interest-bearing securities.

21 OTHER INCOME

	2014	2013
THE OTHER INCOME CONSISTS OF:		
– Income from consultancy services	1	1
TOTAL	**1**	**1**

255

22 STAFF COSTS

	2014	2013
THE STAFF COSTS CONSIST OF:		
Wages and salaries	23	22
Pension costs	4	4
Social security costs	2	2
Addition to provisions	0	0
Other staff costs	5	4
TOTAL	**34**	**32**

23 OTHER ADMINISTRATIVE EXPENSES

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

24 DEPRECIATION

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

255

25 IMPAIRMENTS

The impairments in 2014 amount to EUR 10 million (2013: EUR 51 million).

	2014	2013
THE IMPAIRMENTS CONSIST OF:		
– Addition to the incurred loss provision for loans and advances	15	12
– Release from the incurred loss provision for loans and advances	−5	−2
– Impairment of financial assets available-for-sale	–	21
– Impairment of associates and joint ventures	–	20
TOTAL	**10**	**51**

The movements in the incurred loss provision are included in the Loans and advances item (note 2). The impairments are attributable to the development of individual loans and advances of the bank.

26 BANK LEVY

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

255

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

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

	2014	2013
Audit of the financial statements	338	351
Other audit-related services	252	190
Other non-audit-related services	16	16
TOTAL	**606**	**557**

The increase in fees paid to external auditors relative to 2013 is the result of the increase in the number of debt issues by the bank, for which the external auditor issues so-called comfort letters.

28-40 OTHER NOTES

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

REMUNERATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

For the details of the remuneration of the Executive Board and the Supervisory Board, please refer to note 33 of the consolidated financial statements.

141

The Hague, 6 March 2015

EXECUTIVE BOARD

C. VAN EYKELENBURG, CHAIRMAN

J.J.A. LEENAARS

J.C. REICHARDT

SUPERVISORY BOARD

H.O.C.R. RUDING, CHAIRMAN

MS S.M. DEKKER, VICE-CHAIR (AND SECRETARY)

C.J. BEUVING

L.M.M. BOLSIUS

T.J.F.M. BOVENS

W.M. VAN DEN GOORBERGH

MS P.H.M. HOFSTÉ

MS J. KRIENS

J.J. NOOITGEDAGT

MS M. SINT

Other information

Independent auditor's report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2014

OUR OPINION

We have audited the accompanying 2014 financial statements of N.V. Bank Nederlandse Gemeenten (hereinafter referred to as 'BNG Bank' or 'the company') based in The Hague.

In our opinion, the financial statements give a true and fair view of the financial position of BNG Bank as at 31 December 2014 and of its result and cash flows for the year 2014 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.

The financial statements comprise:
- the consolidated and company balance sheet as at 31 December 2014;
- the following consolidated and company statements for the year then ended: the income statement, the comprehensive income statement, the cash flow statement and the statement of changes in equity, and
- notes comprising a summary of significant accounting policies and other explanatory information.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of BNG Bank in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' ('ViO') and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' ('VGBA').

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

MATERIALITY

Misstatements can arise from fraud or error and 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 these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 16 million. The materiality is based on 5% of the normalised profit before tax. We have also taken misstatements and/or possible misstatements into account that are in our opinion material for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.8 million identified during the audit would be reported to them, as would smaller misstatements that we believe must be reported on qualitative grounds.

SCOPE OF THE GROUP AUDIT

BNG Bank is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of BNG Bank.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. We have considered this responsibility when determining the nature and extent of our audit procedures carried out for group entities. When doing so, the significance and/or risk profile of entities and its activities played a key role. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial statements or specific items.

Our group audit concentrated on BNG Bank. We have performed specific audit procedures ourselves at group entities BNG Gebiedsontwikkeling, BNG Vermogens-beheer and Hypotheekfonds voor Overheidspersoneel. We have not used the work of other auditors outside our organisation.

By implementing the above-mentioned procedures within group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

OUR KEY AUDIT MATTERS

These key audit matters include matters which, in our professional judgement, were of most significance in our 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 discussed.

Our auditing procedures for these matters were determined as part of our audit of the financial statements as a whole. Our description of individual key matters must thus be considered within this context and not as individual opinions on these matters.

FAIR VALUE OF STRUCTURED FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

For the fair value measurement of its structured financial instruments (Level 3) at fair value through profit and loss, BNG Bank uses its own pricing curve models taking into account the creditworthiness of the counterparty The fair value measurement was significant for our audit, because the estimation process is complex and highly subjective and based on assumptions.

We assessed and tested, among other things, the effectiveness of the controls relating to the the bank's own price curve models as well as the reasonableness of the assumptions. When assessing the model, the assumptions applied and the parameters, we made use of our valuation experts. This included, where relevant, testing of model validations, independent testing of inputs applied and reperformance of valuations on a sample basis. Finally, we assessed and performed audit procedures for the related disclosures. The disclosures of BNG Bank on its structured financial instruments, including the sensitivity analysis, are included in the financial statements.

CREDIT RISK RELATED TO LOANS AND ADVANCES

Credit risk and the related impairments are inherent to BNG Bank's activities. Developments in the economy and loan portfolio increase the focus on credit risk. BNG Bank periodically assesses whether there are objective indicators that indicate impairment for loans and advances and financial assets available-for-sale. If there are objective indications for impairment, an estimate is made at individual counterparty level of the future cash flows calculated at present value on the basis of the discounted future cash method. The assumptions applied in this context include an estimate of the (forced-sale) value of collateral, an estimate of payments still to be received, an estimate of the timing of these payments and the discount rate.

During our audit, extra attention was paid to the assessment of the quality of financial assets, related credit risks and the valuation thereof. We have tested the related internal control framework. In addition, on the basis of a risk-oriented sample, we have performed extensive testing procedures for a number of selected loans and advances and determined whether there are indicators for impairment and/or whether the assumptions made on the basis of the estimates are adequate. Furthermore, we have audited the disclosures on credit risk in the Risk section of the financial statements of BNG Bank.

HEDGE ACCOUNTING

BNG Bank uses derivative financial instruments to hedge its interest rate risks and the variability in cash flows related to its financial assets or liabilities. BNG Bank applies both fair value and cash-flow hedge accounting. Hedge accounting is only applied when formal documentation is available with respect to the hedging instrument, the hedged item, the relationship between them and the objective of the hedge. The hedge documentation demonstrates that the hedge is expected to be effective and how effectiveness is determined. BNG Bank has developed specific models to calculate hedge effectiveness. The determination of effectiveness was significant for our audit because the process is complex and highly subjective and based on assumptions.

When assessing the model and the assumptions applied, we made use of our experts to assess the assumptions, methods and hedge effectiveness. We have tested the internal control measures for hedge accounting. Furthermore, we have audited the disclosures on hedge accounting in the financial statements.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management 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, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence 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 errors and fraud.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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 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 management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, 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. However, future events or conditions may cause an the Company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 findings in internal control that we identify during our audit.

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 safeguards.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON THE EXECUTIVE BOARD REPORT AND THE OTHER INFORMATION

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code and whether the information as required under Part 9 Book 2 of the Dutch Civil Code has been annexed.
- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

ENGAGEMENT

We have been appointed as the auditor for the 2014 financial statements of BNG Bank and have been the external auditor for some time. Periodic rotation of the external auditor responsible for signing off the financial statements is an important measure to ensure our independence as the auditor. The latest rotation of the external auditor responsible for signing off the financial statements was in 2011. ■

Amsterdam, 6 March 2015

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

Independent assurance rapport

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

We have performed an assurance engagement on the non-financial information presented in the following chapters:

- Foreword
- Report of the Supervisory Board – Sustainability/ Corporate Social Responsibility
- Report of the Executive Board:
  - Strategy
  - Shareholders – Adoption of shareholder sustainability objectives
  - Clients – Added value for society
  - Clients – In dialogue with, and for the benefit of our clients
  - Clients – Customer satisfaction
  - Clients – The world behind our clients
  - Investors and financial counterparties – First socially responsible investment bond issued
  - Employees
  - Laws, regulations and regulators – Intensive contact with regulators

and in the appendices ‘BNG Bank CSR Policy’ and ‘GRI Index BNG Bank 2014’ of the Annual Report (hereinafter referred to as ‘the Report’) of N.V. Bank Nederlandse Gemeenten in The Hague (hereinafter referred to as BNG Bank) for the year 2014. The Report provides an overview of the implemented policy, business operations, events and performance in the area of Corporate Social Responsibility in 2014.

LIMITATIONS OF THE AUDIT

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

The appendices ‘BNG Bank CSR Policy 2014’ (BNG Bank CSR Policy 2014.pdf) and ‘GRI Index 2014’ (GRI Index BNG Bank 2014.pdf) as published on bng.com are an inseparable part of the report and are as such part of our assurance engagement. The other references in the Report (link to bng.nl, external websites and other documents) are not part of our assurance engagement.

MANAGEMENT’S RESPONSIBILITY

Management is responsible for the preparation of the Report in accordance with the G4 Sustainability Reporting Guidelines (core application level) of the Global Reporting Initiative (GRI), including the identification of stakeholders, the selection of material topics and the reporting policy of BNG Bank. The choices made by management regarding the scope of the Report and the reporting policy are set out in the appendix ‘BNG Bank CSR Policy’.

Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on the report based on the assurance evidence obtained. We conducted our engagement in accordance with Dutch law, including the Dutch Standard 3810N, ‘Assurance Engagements with respect to Sustainability Reports’. This requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the report is free from material misstatement.

The procedures selected depend on the auditor’s judgement, including the assessment of the risks of the material misstatement of the Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the Report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An assurance engagement aimed at obtaining reasonable assurance also includes evaluating the appropriateness of reporting policies used and the reasonableness of estimates made by the management of the company, as well as evaluating the overall presentation of the Report.

SCOPE

Our most significant procedures comprised:

- Conducting a stakeholder analysis and obtaining insight into the relevant social themes and issues, relevant laws and regulations and the characteristics of the organisation.
- Evaluating the acceptability of reporting policy and the consistent application of the policy, including evaluating the results of the dialogue with stakeholders and the reasonableness of the estimates made by management.
- Evaluating the application level in accordance with the G4 Sustainability Reporting Guidelines (core application level) of GRI.
- Evaluating the design and implementation, and assessing the effectiveness of the systems and processes for collecting and processing data for the purpose of the information in the Report.
- Conducting interviews with management (or relevant employees) responsible for the sustainability strategy and policy.
- Conducting interviews with relevant employees responsible for supplying information for the Report, performing internal audits of data and the consolidation of data in the Report.
- Auditing the relevant data and the internal and external documentation, on the basis of partial observations, to determine the accuracy of the information in the Report.
- Performing an analytical evaluation of data and trends supplied for consolidation in the Report.

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

OPINION

In our opinion, having regard to the limitations stated in the ‘Limitations of the audit’ section, this Report provides, in all material respects, an accurate and adequate representation of the policy of BNG Bank with regard to sustainability and the business operations, events and performance of BNG Bank during 2014 in accordance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative and the reporting policy of BNG Bank as explained in the appendix ‘BNG Bank CSR Policy 2014’. ■

The Hague, 6 March 2015

ERNST & YOUNG ACCOUNTANTS LLP
R.J. BLEIJS RA

Stipulations of the Articles of Association concerning profit appropriation

ARTICLE 23 OF THE ARTICLES OF ASSOCIATION RELATING TO THE DISTRIBUTION OF THE PROFIT INCLUDES THE FOLLOWING PROVISIONS:

1. Profit may be distributed only after the General Meeting of Shareholders has adopted the financial statements from which it appears that such distribution is permitted.
2. The company may make payments to the shareholders from the profits available for distribution only insofar as its equity capital exceeds the amount of the paid-up part of the capital plus the statutory reserves.
3. First of all, if possible, an amount of ten per cent (10%) of the profit of the financial year available for distribution as evidenced by the financial statements shall be added to the general reserve; out of any surplus remaining thereafter, the shareholders shall, if possible, be paid five per cent (5%) of the nominal amount of their shareholding.
4. The remainder shall be paid to the shareholders in proportion to the nominal amount of their shareholding, insofar as the General Meeting of Shareholders does not allocate this amount to the reserves.
5. The company is authorised to make interim profit distributions, subject to the provisions of Section 105(4) of Book 2 of the Dutch Civil Code. ■

Proposed profit appropriation

Amounts in millions of euros	2014	2013
NET PROFIT	**126**	**283**
PROFIT APPROPRIATION IS AS FOLLOWS:		
Addition to Other reserves pursuant to Article 23(3) of the BNG Bank Articles of Association	13	29
Dividend pursuant to Article 23(3) of the BNG Bank Articles of Association	7	7
	20	**36**
Addition to Other reserves pursuant to Article 23(4) of the BNG Bank Articles of Association	81	183
Dividend pursuant to Article 23(4) of the BNG Bank Articles of Association	25	64
	106	**247**

Objectives as defined in the Articles of Association

Article 2 of the Articles of Association contains the following provisions:

1. The objective of the company shall be to conduct the business of banker on behalf of public authorities.
2. In the context of its objective as referred to in paragraph 1 the company shall engage, inter alia, in taking in and lending funds, granting loans in other ways, providing guarantees, executing payments, conducting foreign exchange transactions, acting as advisor and broker in the issue of and trade in securities, and keeping, managing and administering securities and other assets for third parties, as well as to incorporate and to participate in other enterprises and/or legal persons, whose objectives are connected with or conducive to any of the foregoing. The company shall be authorised to perform all acts which may be directly or indirectly conducive to its objective.
3. The term public authorities as referred to in paragraph 1 means:
   a. municipalities and other legal persons in the Netherlands under public law as referred to in Section 1(1) and (2) of Book 2 of the Dutch Civil Code;
   b. the European Communities and other bodies possessing legal personality to which part of the function of the European Communities has been entrusted pursuant to the treaties establishing the European Communities;
   c. Member States of the European Communities and other bodies possessing legal personality to which part of the administrative function of such a Member State has been entrusted pursuant to the law of that Member State;
   d. legal persons under private law:
   - half or more of whose managing directors are appointed directly or indirectly by one or more of the bodies referred to at a, b and c of this paragraph; and/or
   - half or more of whose share capital is provided directly or indirectly by one or more of the bodies referred to at a, b and c;
   and/or
   - half or more of the income side of whose operating budget is provided or secured directly or indirectly

by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;
and/or

- whose operating budget is determined or approved directly or indirectly by one or more of the bodies referred to at a, b and c on the basis of a scheme, bye-law or law adopted by one or more of such bodies;
and/or
- whose obligations toward the company are guaranteed directly or indirectly by one or more of the bodies referred to at a, b and c or will be so guaranteed on the basis of a scheme, bye-law or law adopted by one or more of such bodies, which obligations are understood to include non-guaranteed obligations from pre-financing or otherwise which, following novation, will give rise to obligations that are to be guaranteed by one or more of such bodies on the basis of a scheme, bye-law or law adopted by one or more of such bodies;
and/or
- which perform a part of the government's tasks on the basis of a scheme, bye-law or law adopted by one or more of the bodies referred to at a, b and c. ■

7

Appendices

A BNG Bank subsidiaries

BNG GEBIEDSONTWIKKELING BV 100%

Dr. Kuyperstraat 12
2514 BB The Hague
The Netherlands

MANAGEMENT BOARD

G.C.A. RODEWIJK

P.O. Box 16075
2500 BB The Hague
The Netherlands
Telephone +31 (0)70 3119 900
info@bnggo.nl

Objective:
To directly or indirectly provide (venture) capital to public authorities and to directly or indirectly participate in and/or cooperate with projects, either with or on behalf of public authorities or institutions affiliated with public authorities.

BNG VERMOGENSBEHEER BV 100%

Koninginnegracht 2
2514 AA The Hague
The Netherlands

MANAGEMENT BOARD

J.J.M. DE WIT
D. WIDIJANTO

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

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

HYPOTHEEKFONDS VOOR OVERHEIDS-PERSONEEL BV (HVO) 100%

Koninginnegracht 2
2514 AA The Hague
The Netherlands

MANAGEMENT BOARD

MS P.J.E. BIERINGA
O. LABE

P.O. Box 30305
2500 GH The Hague
The Netherlands
Telephone +31 (0)70 3750 619
bms@bng.nl

Objective:
The financing of mortgage loans taken out by civil servants in the employ of an affiliated public or semi-public institution with which a cooperation agreement has been reached. ■

B BNG Bank consolidated annual figures since 1915

Amounts in thousands of euros

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM LIABILITIES
1915	204	20	0	277
1920	384	84	38	295
1925	1,767	1,767	77	3,533
1930	1,983	1,983	140	15,410
1935	2,900	2,900	231	22,183
1940	3,061	3,061	208	12,883
1945	3,061	3,061	249	10,520
1950	3,105	3,105	454	86,543
1955	3,133	3,133	908	566,825
1960	40,939	7,012	4,538	2,740,538

Continued on next page

Continuation of previous page

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM LIABILITIES
1965	45,378	7,465	8,168	4,271,975
1970	52,775	14,862	16,427	8,251,283
1975	67,568	29,655	88,489	15,025,688
1980	104,551	66,638	246,586	18,809,227
1981	111,948	74,035	284,250	20,563,058
1982	119,344	81,431	362,754	22,826,819
1983	126,741	95,141	436,537	23,018,006
1984	138,152	106,552	513,225	22,843,430
1985	143,857	112,258	592,637	24,492,553
1986	149,562	117,963	674,429	26,984,054
1987	155,268	123,668	752,796	30,411,173
1988	155,268	123,668	824,995	31,874,574
1989	155,268	123,668	892,191	31,954,215
1990	158,008	126,409	967,389	32,161,023
1991	158,008	126,409	1,011,728	31,079,730
1992	158,008	126,409	1,083,265	29,746,188
1993	158,008	126,409	1,152,996	33,147,989
1994	158,008	126,409	1,224,994	35,943,094
1995	158,008	126,409	1,305,757	39,664,778
1996	158,008	126,409	1,399,815	41,834,574
1997	158,008	126,409	1,547,432	43,497,010

Continued on next page

Continuation of previous page

FINANCIAL YEAR	ISSUED CAPITAL	PAID-UP CAPITAL	RESERVES	LONG-TERM LIABILITIES
1998	158,008	126,420	1,679,379	45,401,721
1999	158,008	126,420	1,860,763	47,667,792
2000	158,008	126,420	2,075,272	49,286,388
2001	139,227	139,227	2,139,103	52,564,243
2002	139,227	139,227	2,194,764	55,448,477
2003	139,227	139,227	2,159,527	58,671,294
2004	139,227	139,227	2,330,805	64,067,450
2005	139,227	139,227	2,832,809	72,647,410
2006	139,227	139,227	2,336,965	71,207,875
2007	139,227	139,227	1,815,926	69,039,722
2008	139,227	139,227	1,759,853	80,032,181
2009	139,227	139,227	1,974,507	82,638,729
2010	139,227	139,227	1,991,578	87,314,051
2011	139,227	139,227	1,693,749	95,884,733
2012	139,227	139,227	2,529,382	100,414,585
2013	139,227	139,227	3,220,121	91,421,723
2014	139,227	139,227	3,411,090	84,681,190

Amounts in thousands of euros

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1915	57	0	653	2
1920	538	0	257	42
1925	5,149	3,511	3,553	155
1930	17,065	5,722	5,094	187
1935	24,815	7,633	3,311	322
1940	15,877	8,518	4,415	246
1945	13,384	22,262	9,101	232
1950	90,807	53,777	24,427	532
1955	572,623	66,767	47,818	832
1960	2,779,127	71,720	96,116	1,037
1965	4,301,094	281,075	101,298	2,027
1970	8,413,856	438,774	99,466	6,587
1975	15,229,918	600,179	195,233	28,850
1980	19,166,544	1,294,919	141,613	70,489
1981	20,999,362	1,304,916	194,746	76,847
1982	23,241,661	1,026,584	290,715	97,953
1983	23,406,090	963,080	417,796	91,597
1984	22,925,876	1,161,707	473,164	97,678
1985	24,655,812	1,254,453	619,518	100,996
1986	27,188,156	1,805,989	516,630	104,065
1987	30,600,152	1,686,531	442,082	101,762
1988	32,296,882	1,352,895	667,849	109,288

Continued on next page

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
1989	32,489,741	1,666,878	908,875	104,285
1990	32,732,015	2,261,428	919,473	110,461
1991	33,724,611	2,181,086	1,417,843	86,041
1992	34,455,423	1,358,717	2,213,487	118,293
1993	37,818,157	1,483,964	2,625,294	115,437
1994	38,071,862	2,735,454	2,590,526	128,649
1995	40,761,488	2,137,899	2,587,148	137,191
1996	41,870,931	1,933,578	1,902,931	143,444
1997	43,335,947	2,656,811	1,597,669	153,752
1998	45,466,657	2,797,481	1,357,663	169,350
1999	47,171,383	3,082,766	2,111,858	230,081
2000	54,623,328	3,110,394	3,779,636	230,904
2001	59,446,888	3,994,986	8,504,975	249,000
2002	67,046,644	4,792,642	10,115,715	283,127
2003	72,859,621	4,558,707	12,789,138	303,627
2004	73,914,244	5,070,251	11,284,235	300,797
2005	76,019,286	6,947,752	7,155,594	310,833
2006	77,992,839	6,984,629	9,169,497	198,694
2007	78,826,312	10,349,820	13,658,775	195,418
2008	75,741,198	11,079,758	17,473,692	157,701
2009	77,915,557	9,939,636	17,721,605	277,589

Continued on next page

Continuation of previous page

FINANCIAL YEAR	LONG-TERM LENDING	SHORT-TERM LOANS AND ADVANCES	SHORT-TERM BORROWINGS	PROFIT AND LOSS ACCOUNT*
2010	90,389,403	12,390,256	18,678,225	256,763
2011	97,577,785	15,343,347	23,556,036	256,389
2012	99,392,923	14,858,192	19,069,006	331,912
2013	101,150,909	11,292,330	19,985,258	282,770
2014	98,782,635	21,809,171	38,635,173	125,969

* From 2005 after withholding corporate income tax. Because BNG Bank adopted the International Financial Reporting Standards (IFRS) for the financial statements with effect from 1 January 2005 the figures from 2005 onward are not completely comparable with earlier years.

C BNG Bank shareholders as at 31 December 2014

55,690,720 SHARES	
Aa en Hunze	52,728
Aalburg	17,550
Aalsmeer	25,857
Aalten	19,305
Achtkarspelen	87,711
Alblasserdam	9,477
Albrandswaard	3,510
Alkmaar	175,890
Almelo	174,525
Almere	3,432
Alphen aan den Rijn	256,854
Ameland	3,120
Amersfoort	272,220
Amstelveen	143,520
Amsterdam	617,058
Apeldoorn	132,093
Appingedam	23,751
Arnhem	496,470
Assen	85,301
Asten	13,000
Baarle-Nassau	3,510
Baarn	46,800
Barendrecht	32,097
Barneveld	24,570
Bedum	5,265
Beek (L)	11,544
Beemster	7,020
Beesel	66,300
Bellingwedde	12,597
Bergambacht	3,510
Bergeijk	80,886
Bergen (L)	10,530
Bergen (N.H.)	149,994
Bergen op Zoom	41,067
Berkelland	305,877
Bernheze	21,060
Bernisse	13,260

Continued on next page

Continuation of previous page

Best	24,570
Beuningen	14,040
Beverwijk	85,605
Binnenmaas	105,495
Bladel	62,790
Blaricum	5,967
Bloemendaal	21,060
Bodegraven-Reeuwijk	76,830
Borger-Odoorn	80,340
Borne	107,172
Borsele	39,273
Boxmeer	38,660
Boxtel	53,385
Breda	257,439
Brielle	24,414
Bronckhorst	72,384
Brummen	702
Brunssum	86,658
Bunnik	3,000
Buren	23,953
Bussum	97,188
Capelle aan den IJssel	7,722
Castricum	40,872
Coevorden	94,926
Cranendonck	5,000
Cromstrijen	7,020
Cuijk	32,253
Culemborg	8,775
Dalfsen	33,735
Dantumadiel	12,285
De Bilt	218,673
De Friese Meren	108,436
De Marne	10,530
De Ronde Venen	37,323
De Wolden	31,122
Delft	47,385
Delfzijl	39,156
Den Haag	1,275,456
Den Helder	211,731
Deurne	99,840
Deventer	292,313
Diemen	8,775
Dinkelland	16,934
Doesburg	27,612
Doetinchem	62,634
Dongen	23,510
Dongeradeel	76,323
Dordrecht	233,142
Drechterland	15,756
Drenthe (province)	87,750
Drimmelen	36,426

Continued on next page

Continuation of previous page

Druten	9,477
Duiven	3,510
Echt-Susteren	21,411
Edam-Volendam	29,484
Ede	108,420
Eemsmond	21,060
Eersel	121,021
Eijsden-Margraten	52,455
Eindhoven	171,600
Elburg	76,830
Emmen	58,266
Enkhuizen	130,650
Enschede	200,343
Epe	60,879
Ermelo	75,075
Etten-Leur	9,828
Ferwerderadiel	5,967
Flevoland (province)	75,250
Franekeradeel	34,554
Friesland (province)	75,250
Geertruidenberg	133,653
Gelderland (province)	87,750
Geldermalsen	28,665
Geldrop-Mierlo	30,186
Gemert-Bakel	45,474
Gennep	10,530
Giessenlanden	25,935
Gilze en Rijen	10,179
Goeree-Overflakkee	72,501
Goes	96,369
Goirle	12,636
Gorinchem	96,330
Gouda	82,446
Graft-De Rijp	7,020
Groesbeek	60,840
Groningen (municipality)	329,199
Groningen (province)	75,250
Grootegast	9,750
Gulpen-Wittem	26,040
Haaksbergen	35,958
Haaren	11,278
Haarlem	230,295
Haarlemmerliede en Spaarnwoude	62,790
Haarlemmermeer	60,372
Halderberge	43,524
Hardenberg	64,935
Harderwijk	58,968
Hardinxveld-Giessendam	31,356
Haren	9,126

Continued on next page

Continuation of previous page

Harlingen	31,200
Hattem	30,030
Heemskerk	7,722
Heemstede	122,421
Heerde	9,126
Heerenveen	65,267
Heerhugowaard	9,789
Heerlen	424,827
Heeze-Leende	10,020
Heiloo	36,000
Hellendoorn	24,180
Hellevoetsluis	6,240
Helmond	52,650
Hendrik Ido Ambacht	25,818
Hengelo (O)	174,486
’s-Hertogenbosch	139,659
Het Bildt	73,905
Heumen	151,515
Heusden	44,499
Hillegom	49,686
Hilvarenbeek	23,510
Hilversum	120,939
Hof van Twente	157,326
Hollands Kroon	60,294
Hoogeveen	17,550
Hoogezand-Sappemeer	31,161
Hoogheemraadschap Hollands Noorderkwartier	17,355
Hoorn	46,098
Horst aan de Maas	113,108
Houten	6,240
Huizen	85,956
Hulst	17,472
IJsselstein	4,563
Kaag en Braassem	121,719
Kampen	100,893
Kapelle	53,040
Katwijk	144,066
Kerkrade	183,300
Koggenland	29,016
Kollumerland en Nieuwkruisland	22,347
Korendijk	29,718
Krimpen aan den IJssel	32,799
Laarbeek	20,709
Landerd	29,094
Landgraaf	41,301
Landsmeer	24,453
Langedijk	6,318
Lansingerland	15,015

Continued on next page

Continuation of previous page

Leek	28,041
Leerdam	17,550
Leeuwarden	133,044
Leeuwarderadeel	72,150
Leiden	347,646
Leiderdorp	97,968
Leidschendam-Voorburg	203,190
Lelystad	5,000
Leudal	143,052
Limburg (province)	156,000
Lingewaal	17,550
Lingewaard	19,305
Lisse	18,252
Littenseradiel	8,736
Lochem	60,138
Loon op Zand	41,886
Lopik	26,442
Loppersum	24,102
Losser	17,550
Maasdonk	10,530
Maasdriel	20,770
Maasgouw	72,150
Maassluis	61,035
Maastricht	347,334
Marum	7,020
Medemblik	13,650
Meerssen	13,689
Menameradiel	24,375
Menterwolde	38,688
Meppel	18,915
Middelburg	49,296
Midden-Delfland	48,594
Midden-Drenthe	60,138
Mill en St. Hubert	5,265
Millingen aan de Rijn	8,736
Moerdijk	27,027
Molenwaard	35,022
Montferland	19,756
Montfoort	12,480
Mook en Middelaar	123,708
Muiden	3,510
Neder-Betuwe	18,246
Nederlek	33,150
Nederweert	14,040
Neerijnen	14,040
Nieuwegein	80,184
Nieuwkoop	36,348
Nijkerk	32,370
Nijmegen	193,479
Noord-Beveland	6,520
Noord-Brabant (province)	40,000

Continued on next page

Continuation of previous page

Noordenveld	30,771
Noord-Holland (province)	610,350
Noordoostpolder	19,656
Noordwijk	12,636
Noordwijkerhout	8,775
Nuenen, Gerwen en Nederwetten	1,755
Nunspeet	75,075
Nuth	11,232
Oegstgeest	46,059
Oirschot	8,775
Oisterwijk	7,845
Oldambt	181,116
Oldebroek	9,750
Oldenzaal	17,550
Olst-Wijhe	18,252
Ommen	79,638
Onderbanken	8,775
Oosterhout	35,100
Oost Gelre	51,363
Ooststellingwerf	18,720
Oostzaan	24,765
Opmeer	19,188
Opsterland	66,651
Oss	60,645
Oud-Beijerland	5,265
Oude IJsselstreek	161,460
Ouder-Amstel	4,914
Ouderkerk	3,510
Oudewater	27,612
Overbetuwe	21,762
Overijssel (province)	87,750
Papendrecht	6,318
Peel en Maas	63,687
Pekela	26,130
Pijnacker-Nootdorp	57,564
Purmerend	7,020
Putten	10,530
Raalte	25,987
Reimerswaal	15,990
Renkum	89,739
Reusel-De Mierden	10,530
Rheden	186,966
Rhenen	61,035
Ridderkerk	89,115
Rijnwaarden	4,914
Rijssen-Holten	304,746
Rijswijk (Z.H.)	165,945
Roerdalen	17,199
Roermond	34,749
Roosendaal	56,862

Continued on next page

Continuation of previous page

Rotterdam	321,555
Rucphen	19,656
Schagen	55,497
Schermer	7,020
Scherpenzeel	3,510
Schiedam	326,352
Schiermonnikoog	7,020
Schijndel	28,782
Schinnen	7,020
Schouwen-Duiveland	23,790
Simpelveld	6,630
Sint-Anthonis	12,285
Sint-Michielsgestel	21,060
Sint-Oedenrode	64,857
Sittard-Geleen	175,266
Sliedrecht	31,200
Slochteren	20,124
Sluis	10,140
Smallingerland	110,292
Soest	123,825
Someren	15,444
Son en Breugel	29,991
Spijkenisse	7,020
Staat der Nederlanden	27,845,360
Stadskanaal	27,339
Staphorst	30,030
Stede Broec	17,823
Steenbergen	11,583
Steenwijkerland	129,675
Stein	19,266
Stichtse Vecht	29,523
Strijen	6,240
Súdwest Fryslân	317,058
Ten Boer	3,510
Terneuzen	45,474
Terschelling	3,510
Teylingen	57,681
Texel	7,371
Tholen	33,696
Tiel	36,803
Tilburg	71,786
Tubbergen	30,000
Twenterand	23,868
Tynaarlo	43,243
Tytsjerksteradiel	48,945
Ubbergen	33,540
Uden	17,550
Uitgeest	3,510
Uithoorn	54,522
Urk	3,861

Continued on next page

Continuation of previous page

Utrecht (municipality)	763,074
Utrecht (province)	87,750
Utrechtse Heuvelrug	201,669
Vaals	17,121
Valkenburg aan de Geul	21,060
Valkenswaard	12,987
Veendam	86,190
Veenendaal	86,970
Veere	7,020
Veghel	26,598
Veldhoven	35,100
Velsen	280,410
Venlo	106,026
Venray	54,202
Vianen	22,698
Vlaardingen	198,198
Vlagtwedde	16,458
Vlieland	3,510
Vlissingen	70,356
Vlist	10,530
Voerendaal	11,232
Voorschoten	41,184
Voorst	112,983
Vught	15,795
Waalre	6,318
Waalwijk	29,133
Waddinxveen	17,823
Wageningen	50,310
Wassenaar	106,392
Waterland	14,040
Weert	41,379
Weesp	33,501
Werkendam	9,828
Westerveld	51,987
Westervoort	3,510
Westland	301,860
Weststellingwerf	58,071
Westvoorne	66,963
Wierden	21,060
Wijchen	11,193
Wijdemeren	33,930
Wijk bij Duurstede	23,751
Winsum	10,140
Winterswijk	17,199
Woensdrecht	11,232
Woerden	123,201
Wormerland	36,660
Woudenberg	3,510
Woudrichem	10,530
Zaanstad	416,286

Continued on next page

Continuation of previous page

Zaltbommel	3,861
Zandvoort	56,862
Zederik	43,017
Zeevang	12,246
Zeewolde	78
Zeist	192,075
Zevenaar	8,020
Zoetermeer	3,510
Zoeterwoude	26,871
Zuid-Holland (province)	610,350
Zuidhorn	10,140
Zuidplas	54,328
Zundert	104,949
Zutphen	95,940
Zwartewaterland	23,712
Zwolle	149,097
Zwijndrecht	47,541

COLOPHON

Editorial: BNG Bank
Design & production: Urban Design Front, Rotterdam
Photography: Thijs Wolzak, municipality of Landgraaf and municipality of Leeuwarden
For more information on the subject of CSR, please contact Jan Klaassens:
jan.klaassens@bngbank.nl

BNG Bank
Koninginnegracht 2
P.O. Box 30305
2500 GH The Hague
The Netherlands
Telephone +31 70 3750 750
mc@bngbank.nl
bngbank.com

BNG
BANK