Interim Report

BNG Bank 2018

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Profile

MISSION

BNG Bank is the bank for local authorities and public sector institutions. The bank is a committed partner and creates value by providing affordable and sustainable financing. The bank provides its clients with a wide range of financial services, including loans and advances, payment transactions, area development, sustainable project financing and participating interests in public-private partnerships. In this way, the bank contributes to minimising the costs of social provisions for the Dutch public as well as a more sustainable Netherlands and, by extension, to achieving the UN Sustainable Development Goals.

Committed partner means that the bank knows its client groups and contributes to resolving current or future problems in the sectors in which they operate. At an individual level, the bank tailors its services to the client's needs and professionalism.

CORE VALUES

BNG Bank's core values are: sustainable, reliable and professional. Sustainable is interpreted by BNG Bank as simultaneously serving the interest of people, planet and profit. This notion is inextricably linked to our mission. To implement it, the bank encourages clients to take initiatives aimed at creating a more sustainable society and organises its operations to guarantee professionalism and low environmental impact.

Reliable means in the light of its public role that BNG Bank is a safe bank that is visible to and distinctive for its stakeholders. Most of the bank's lending is guaranteed by the Dutch central government or local public authorities. BNG Bank provides these services regardless of the economic conditions in the Netherlands. The bank is always open for business.

Professional means that the bank is continuously developing its services, human capital and information provision further. This value is translated into its human resource policy and commercial operations.

A **committed partner** that **creates value** by providing **affordable** and **sustainable financing**.

CREDITWORTHINESS

A prerequisite for value creation by the bank is its creditworthiness. After the Dutch State, BNG Bank is one of the largest issuers of debt securities in the Netherlands. The bank's credit rating is AAA from Standard & Poor's, Aaa from Moody's and AA+ from Fitch. BNG Bank is ranked among the world's safest banks. The bank's excellent creditworthiness provides it with a strong funding position on the international money and capital markets.

STATUTORY NAME WITH EFFECT FROM 27 AUGUST: BNG BANK N.V.

Relevant legislative changes, the Dutch Corporate Governance Code and a changed practice have prompted BNG Bank to update and modernize the articles of association. On that occasion, with effect from 27 August 2018, the name 'BNG Bank N.V.' has now also been laid down in the articles of association as a replacement for the statutory name 'N.V. Bank Nederlandse Gemeenten'.

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Report of the Executive Board

BNG Bank closed the first half of 2018 with a net profit of EUR 207 million, down EUR 35 million from the first half of 2017. This decrease was mainly attributable to a lower contribution from the result on financial transactions. At EUR 220 million, the interest result was slightly higher than budgeted and virtually unchanged compared with the first half of 2017.

New long-term lending of EUR 5.8 billion in the first half of 2018 was significantly higher than expected. In particular, demand for credit from local authorities was higher than expected. BNG Bank's long-term lending portfolio increased by EUR 0.6 billion to EUR 80.7 billion in the reporting period. The average level of outstanding short-term lending to clients rose by EUR 0.4 billion to EUR 4.7 billion relative to the first half of 2017.

BNG Bank is closely involved in implementing the objectives of the climate agreement. In connection with the aim to expand sustainability initiatives, BNG Bank launched the Public Real Estate Scan in late 2017. The online tool gives clients of the bank relatively quickly an overview of the necessary measures and related costs to increase the sustainability of real estate. At present, over 3 million m^2 of public real estate has been mapped by municipalities with this tool. Together with various other parties, BNG Bank is also examining options to improve the sustainability of public real estate in the Netherlands, with a view to making life easier for the bank's clients as much as possible and working on initiatives for investments that are necessary to make residential areas independent of natural gas. Also in the first quarter, an initial loan of EUR 10 million was granted to the Sustainability Fund established by the bank. The Sustainability Fund finances small-scale projects that contribute to the sustainability goals of municipalities or provinces. In total, BNG Bank granted EUR 921 million in sustainable loans in the reporting period.

In the reporting period, BNG Bank raised EUR 9.3 billion (first half of 2017: EUR 9.9 billion) in long-term funding, among other things by issuing five benchmark loans (in EUR and USD) ranging in size from 500 million to 2.5 billion. Owing to its good credit ratings and the favourable market conditions in the international capital markets, BNG Bank was able to raise long-term and short-term funding at attractive prices.

The new accounting standard (IFRS 9) for financial instruments became effective on 1 January 2018. The impact on equity was EUR 266 million negative. This was mainly attributable to the decrease in the cash flow hedge reserve (EUR 174 million) and related to changes implemented in hedge accounting. This reserve is not part of the Tier 1 capital and therefore has no impact on the level of the Tier 1 ratio and leverage ratio. Other reserves decreased by EUR 44 million, of which EUR 33 million was attributable to the increase in the credit loss allowances. For more details on the transition to IFRS 9, reference is made to the Consolidated Interim Financial Statements.

As in 2017, the interest result of the bank benefited from the favourable rates for new funding raised. As a result, the margin of the bank in the long-term loan portfolio increased. Compared with the same period in 2017, the interest result was virtually unchanged, at EUR 220 million. The average margin in short-term lending edged down. A first cautious step towards 'normalisation' of the money market therefore appears to have been taken.

New long-term lending of **EUR 5.8 billion** in the first half of 2018 was **significantly higher** than expected.

The result on financial transactions was EUR 85 million positive in the reporting period (first half of 2017: EUR 132 million positive). The positive result on financial transactions was mainly attributable to the extension of the ECB's asset purchase programme. The continued decrease in the credit and liquidity risk spreads of most European interest-bearing securities led to positive unrealised market value movements in the bank's income statement. The vast majority of the realised changes in value resulted from movements in the liquidity portfolio.

Despite the **increase** in the **balance sheet total**, the bank's **leverage ratio increased to 3.6%** compared with year-end 2017.

Regular operating expenses for the first half of 2018 were up by EUR 3 million from the comparative period in 2017, to EUR 37 million. Persistent regulatory pressure is leading to a structural increase in the workforce and the costs for information technology. In addition, the need to design processes more efficiently is causing cost increases in the current year.

BNG Bank paid its contribution of around EUR 12 million to the European resolution fund in the second quarter of 2018. The increase of almost EUR 3 million compared with the contribution in 2017 is higher than expected because the annual contribution required from banks was raised. This increase was applied to be able to attain the total desired size of the fund by 2023.

Impairments in the first half of 2018 amounted to EUR 3 million positive. The positive economic developments, which affect the credit loss allowances under IFRS 9, led to a decrease in expected credit losses of EUR 4 million. By contrast, an impairment loss of more than EUR 1 million was recognised in a joint venture of BNG Gebiedsontwikkeling.

The balance sheet total increased by EUR 4.1 billion to EUR 144.1 billion in the first half of 2018. The item Loans and advances decreased by EUR 1.7 billion to EUR 84.3 billion, mainly due to the reclassification as part of the transition to IFRS 9 of EUR 1.4 billion in interest-bearing securities issued by clients to the item Interest-bearing securities at amortised cost. The increase in the balance sheet total was almost entirely due to the ample liquidity position of the bank with the ECB, partly as a result of the attractive funding rates for short maturities.

Compared to the IFRS 9 opening balance the bank's equity grew by EUR 0.2 billion to almost EUR 4.9 billion in the reporting period. This increase was mainly attributable to the net profit in the first half of 2018. The risk-weighted solvency ratios increased further during the reporting period. The Common Equity Tier 1 ratio and the bank's Tier 1 ratio rose to 32% and 38%, respectively. Despite the increase in the balance sheet total, the bank's leverage ratio increased to 3.6% compared with year-end 2017. The 0.1% increase was mainly due to the addition of the 2017 retained earnings to the bank's Tier 1 capital.

Common Equity Tier 1 ratio rose to 32%

BNG Bank expects to exceed the full-year target for new long-term lending of EUR 9.4 billion due to substantial demand from the local authorities. The expected increase in demand from the housing association sector has still failed to materialise. Irrespective of the strong need for new homes, the housing associations remain cautious about making new investments. The new tax rules that have been announced, which may negatively impact the financial position of housing associations, appear to be a factor in this connection.

Tier 1 ratio rose to 38%

The estimated long-term funding requirement for 2018 is EUR 18 billion. Expectations are that two new Socially Responsible Investment bonds will be issued in the second half of 2018.

The **interest result** for 2018 is expected to range between **EUR 430 million** and **EUR 460 million**.

Consolidated operating expenses are expected to amount to approximately EUR 78 million in 2018. The bank's contribution to the statutory bank levy amounts to more than EUR 31 million.

The interest result for 2018 is expected to range between EUR 430 million and EUR 460 million. This range has been raised compared with year-end 2017 due to the continuing favourable funding rates. Unpredictable movements on the financial markets make it impossible to provide a reliable statement on the unrealised results within the result on financial transactions. Therefore the bank does not consider it wise to make a statement regarding the expected net profit for 2018.

DECLARATION OF RESPONSIBILITY

In the opinion of the Executive Board, the Interim Report provides a true and fair view of the assets, liabilities, the financial position and the results of BNG Bank and the subsidiaries included in the consolidation. The Interim Report provides a true and fair view of the position on the balance sheet date, performance during the first half-year and the expected developments of BNG Bank and its consolidated subsidiaries, whose figures have been included in the consolidated Interim Report. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2017 Annual Report.

The Hague, 24 August 2018

EXECUTIVE BOARD
G.J. SALDEN, CHAIR
O.J. LABE
J.C. REICHARDT

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An unqualified audit opinion has been issued for the figures as at 31 December 2017 and for the 2017 financial year as a whole. An unqualified review report has been issued for the figures as at 30 June 2018, as well as for the first half of 2018 and 2017 (not restated) respectively.

CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/06/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
ASSETS			
Cash and balances with central banks	8,526	2,996	2,996
Amounts due from banks	32	12	105
Cash collateral posted	12,166	13,892	13,892
Financial assets at fair value through the income statement	1,614	1,628	2,006
Derivatives	9,142	8,978	8,982
Financial assets at fair value through other comprehensive income	10,342	10,794	–
Financial assets available-for-sale	–	–	14,110
Interest-bearing securities at amortised cost	6,101	5,134	–
Loans and advances	84,329	84,640	86,008
Value adjustments on loans in portfolio hedge accounting	11,598	11,685	11,813
Associates and joint ventures	47	47	47
Property & equipment	18	17	17
Current tax assets	59	–	–
Other assets	162	19	19
Assets classified as held for sale	–	30	30
TOTAL ASSETS	**144,136**	**139,872**	**140,025**

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CONSOLIDATED BALANCE SHEET

Amounts in millions of euros

	30/06/2018 (IFRS 9)	01/01/2018 (IFRS 9)	31/12/2017 (IAS 39)
LIABILITIES			
Amounts due to banks	3,336	2,079	2,079
Cash collateral received	466	369	369
Financial liabilities at fair value through the income statement	819	944	944
Derivatives	20,416	21,870	21,870
Debt securities[1]	107,391	104,323	104,127
Funds entrusted	6,311	5,421	5,417
Subordinated debts	31	31	31
Current tax liabilities	–	18	17
Deferred tax liabilities	127	83	173
Other liabilities	363	47	45
TOTAL LIABILITIES	**139,260**	**135,185**	**135,072**
EQUITY			
Share capital	139	139	139
Share premium reserve	6	6	6
Other reserves	3,410	3,570	3,221
Revaluation reserve	170	189	259
Cash flow hedge reserve	12	19	193
Own credit adjustment	8	9	9
Cost of hedging reserve	191	22	–
Net profit	207	–	393
EQUITY ATTRIBUTABLE TO SHAREHOLDERS	**4,143**	**3,954**	**4,220**
Hybrid capital	733	733	733
TOTAL EQUITY	**4,876**	**4,687**	**4,953**
TOTAL LIABILITIES AND EQUITY	**144,136**	**139,872**	**140,025**

1 The number refers to the selected notes to the consolidated 2018 Interim Report.

CONSOLIDATED INCOME STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2018		FIRST HALF OF 2017	
– Interest income calculated using the effective interest method	2,596		2,746	
– Other interest income	282		227	
Total interest income	2,878		2,973	
– Interest expenses calculated using the effective interest method	2.604		2,692	
– Other interest expenses	54		59	
Total interest expenses	2,658		2,751	
Interest result[2]		220		222
– Commission income	14		12	
– Commission expenses	1		1	
Commission result		13		11
Result on financial transactions[3]		85		132
Results from associates and joint ventures		2		2
Result from sales of assets held-for-sale		–		–
Other results		1		1
TOTAL INCOME		**321**		**368**
Staff costs		20		20
Other administrative expenses		16		13
Depreciation		1		1
TOTAL OPERATING EXPENSES		**37**		**34**
Net impairment losses on financial assets[4]		−4		3
Net impairment losses on associates and joint ventures		1		0
Contribution to resolution fund		12		9
TOTAL OTHER EXPENSES		**9**		**12**
PROFIT BEFORE TAX		**275**		**322**
Income tax expense		−68		−80
NET PROFIT		**207**		**242**
– of which attributable to the holders of hybrid capital		19		18
– of which attributable to shareholders		188		224

[2,3,4] The numbers refer to the selected notes to the consolidated 2018 Interim Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in millions of euros

All figures in the statement below are after taxation

	FIRST HALF OF 2018			FIRST HALF OF 2017		
NET PROFIT			**207**			**242**
Recyclable results recognised directly in equity:						
– Changes in cash flow hedge reserve:						
– Unrealised value changes	–7			131		
– Realised value changes transferred to the income statement	–			–		
		–7			131	
– Changes in cost of hedging reserve:						
– Unrealised value changes	165			–		
– Realised value changes transferred to the income statement	4			–		
		169			–	
– Changes in the revaluation reserve for financial assets at fair value through other comprehensive income:						
– Unrealised value changes	–			–		
– Realised value changes transferred to the income statement	–19			–		
– Impairments through the income statement	–			–		
		–19			–	
– Changes in the revaluation reserve for financial assets available-for-sale:						
– Unrealised value changes	–			53		
– Realised value changes transferred to the income statement	–			–31		
		–			22	
TOTAL RECYCLABLE RESULTS		**143**			**153**	
Non-recyclable results recognised directly in equity:						
– Movement in the Own Credit Adjustment (OCA) revaluation reserve for financial liabilities at fair value through the income statement:						
– Unrealised value changes in OCA	–1			–7		
		–1			–7	
– Movement in actuarial results		–			–	
TOTAL NON-RECYCLABLE RESULTS		**–1**			**–7**	
RESULTS RECOGNISED DIRECTLY IN EQUITY			**142**			**146**
TOTAL			**349**			**388**
– of which attributable to the holders of hybrid capital			19			18
– of which attributable to shareholders			330			370

CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2018	FIRST HALF OF 2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	275	322
Adjusted for:		
– Depreciation	1	1
– Impairments	–4	3
– Unrealised results through the income statement	4	–100
Changes in operating assets and liabilities:		
– Changes in Amounts due from and due to banks (not due on demand)	1,123	–2,054
– Changes in Cash collateral posted and received	1,823	–
– Changes in Loans and advances	254	1,522
– Changes in Funds entrusted	836	–669
– Changes in Derivatives	207	392
– Corporate income tax paid	–140	–126
– Other changes from operating activities	–52	–125
NET CASH FLOW FROM OPERATING ACTIVITIES	**4,327**	**–834**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments and acquisitions pertaining to:		
– Financial assets available-for-sale	–	–2,713
– Financial assets at fair value through other comprehensive income	395	–
– Interest-bearing securities at amortised cost	–1,345	–
– Investments in associates and joint ventures	–	–2
– Property and equipment	–2	–1
Disposals and redemptions pertaining to:		
– Financial assets at fair value through the income statement	9	119
– Financial assets available-for-sale	–	3,203
– Financial assets at fair value through other comprehensive income	72	–
– Interest-bearing securities at amortised cost	323	–
– Assets held for sale	29	–
– Investments in associates and joint ventures	0	–
– Property and equipment	0	–
NET CASH FLOW FROM INVESTING ACTIVITIES	**–519**	**606**

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CONSOLIDATED CASH FLOW STATEMENT

Amounts in millions of euros

	FIRST HALF OF 2018	FIRST HALF OF 2017
CASH FLOW FROM FINANCING ACTIVITIES		
Amounts received on account of:		
– Debt securities	145,805	83,869
Amounts paid on account of:		
– Financial liabilities at fair value through the income statement	–120	–17
– Debt securities	–143,797	–83,246
– Subordinated debts	0	–1
– Dividend distribution on Hybrid capital	–25	–23
– Dividend distribution to shareholders	–141	–91
NET CASH FLOW FROM FINANCING ACTIVITIES	**1,722**	**491**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**5,530**	**263**
Cash and cash equivalents as at 1 January	2,999	6,421
CASH AND CASH EQUIVALENTS AS AT 30 JUNE	**8,529**	**6,684**
Cash and cash equivalents as at 30 June:		
– Cash and balances with the central bank	8,525	6,680
– Cash equivalents in the Amount due from banks item	4	4
– Cash equivalents in the Amount due to banks item	0	0
	8,529	**6,684**
NOTES TO CASH FLOW FROM OPERATING ACTIVITIES		
Interest income received	2,816	2,902
Interest expenses paid	–2,619	–2,756
	197	**146**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	FIRST HALF OF 2018										
	CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OWN CREDIT ADJUSTMENT	COST OF HEDGING RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 31/12/2017	**139**	**6**	**259**	**193**	**9**	**–**	**3,221**	**393**	**4,220**	**733**	**4,953**
IFRS 9 impact	–	–	−70	−174	–	22	−44	–	**−266**	**–**	**−266**
BALANCE AS AT 01/01/2018	**139**	**6**	**189**	**19**	**9**	**22**	**3,177**	**393**	**3,954**	**733**	**4,687**
Net profit								207	**207**		**207**
Movement in OCA					−1				**−1**		**−1**
Movement in Cost of hedging						169			**169**		**169**
Unrealised results			−19	−7					**−26**		**−26**
TOTAL COMPREHENSIVE INCOME			**−19**	**−7**	**−1**	**169**		**207**	**349**		**349**
Dividend distribution to the bank's shareholders							−141		**−141**		**−141**
Dividend distribution to holders of hybrid capital							−19		**−19**		**−19**
Appropriation from previous year's profit							393	−393	**–**		**–**
BALANCE AS AT 30/06/2018	**139**	**6**	**170**	**12**	**8**	**191**	**3,410**	**207**	**4,143**	**733**	**4,876**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in millions of euros

	FIRST HALF OF 2017								
	CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	OTHER RESERVES	UNAPPROPRIATED PROFIT	EQUITY ATTRIBUTABLE TO SHAREHOLDERS	HYBRID CAPITAL	TOTAL
BALANCE AS AT 31/12/2016	**139**	**6**	**275**	**3**	**2,961**	**369**	**3,753**	**733**	**4,486**
Net profit						242	**242**		**242**
Movement in OCA			−7				**−7**		**−7**
Unrealised results			22	131			**153**		**153**
TOTAL COMPREHENSIVE INCOME			**15**	**131**		**242**	**388**		**388**
Dividend distribution to the bank's shareholders					−91		**−91**		**−91**
Dividend distribution to holders of hybrid capital					−18		**−18**		**−18**
Appropriation from previous year's profit					369	−369	**–**		**–**
BALANCE AS AT 30/06/2017	**139**	**6**	**290**	**134**	**3,221**	**242**	**4,032**	**733**	**4,765**

Selected notes to the consolidated Interim Report

GENERAL COMPANY INFORMATION

The consolidated Interim Report was prepared by and issued for publication by the Executive Board on 24 August 2018. BNG Bank is a statutory two-tier company under Dutch law. Half of the bank's share capital is held by the Dutch State and the other half by municipal authorities, provincial authorities and a district water board. BNG Bank has its registered office at Koninginnegracht 2 in The Hague (listed under Chamber of Commerce number 27008387) in the Netherlands and has no branch offices.

MAIN ACCOUNTING PRINCIPLES USED FOR THE REPORTING

The consolidated Interim Report is prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. The Interim Report does not contain all the information required for full financial statements and should therefore be read in combination with the 2017 Annual Report. In preparing this consolidated Interim Report, the same system was applied to significant estimates and methods as that for the 2017 consolidated Financial Statements except for the adoption of new amended standards

The consolidated Interim Report was prepared on the basis of the going-concern principle. Most balance sheet items are measured at amortised cost. The balance sheet items Financial assets at fair value through the income statement, Financial assets at fair value through other comprehensive income (IAS39: Financial assets available-for-sale), Derivatives and Financial liabilities at fair value through the income statement are measured 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. The actuarial valuation is applied for the provision associated with the mortgage interest rate discount.

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

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

CHANGES IN PRESENTATION OF COMPARATIVE FIGURES

The adoption of IFRS 9 with regards to classification & measurement, hedge accounting and impairment has no impact on the 2017 comparative figures because they have not been restated. The transition rules of IFRS 9 do not require a retrospective application to prior periods. IFRS 9 has however introduced a consequential amendment to paragraph 82(a) of IAS 1, under which interest revenue calculated using the effective interest method is required to be presented separately on the face of the income statement. The IFRS Interpretations Committee issued an agenda decision which concludes that this separate line item can be used only for interest on those financial assets that are measured at amortised cost or fair value through other comprehensive income (subject to the effect of applying hedge accounting to derivatives in designated hedge relationships).

As a result of this amendment, both the interest income and interest expenses are divided into separate line items on the face of the income statement, i.e. 'Interest income (or expenses) using the effective interest method' and 'Other interest income (or expenses)'. A detailed breakdown of the interest result is provided in Note 2. The comparative figures for the 2017 interest result have also been changed.

BNG Bank has also implemented changes in the presentation in the balance sheet regarding cash collateral positions. In the 2018 Interim Report, there are separate balance sheet items for Cash collateral posted (assets) and Cash collateral received (liabilities). In the 2017 Annual Report and Interim Report, cash collateral posted was recorded in the items Amounts due from banks and Loans and advances (depending on whether the counterparty is a bank or not), whereas cash collateral received was recorded in the items Amounts due to banks and Funds entrusted. This leads to the following changes in balance sheet amounts per 31 December 2017.

	31/12/2017		31/12/2017
	2017 ANUAL REPORT	CHANGE	2018 INTERIM REPORT
Amounts due from banks	13,997	–13,892	105
Cash collateral posted		13,892	13,892
Amounts due to banks	2,393	–314	2,079
Funds entrusted	5,472	–55	5,417
Cash collateral received		369	369

APPLICABLE LAWS AND REGULATIONS

The consolidated Interim Report was prepared in accordance with the IFRS, as issued by the International Accounting Standards Board (IASB) and adopted throughout the European Union. The consolidated interim figures of BNG Bank were prepared in accordance with the principles and calculation methods applied for the 2017 Financial Statements.

BNG Bank does not apply new or amended standards and interpretations issued by the IASB if they have not been adopted by the EU. BNG Bank has, in principle, also decided against the early application of the amended standards and interpretations adopted by the EU, whose application is mandatory for the financial years after 1 January 2018. Application of the following new or amended standards, interpretations and improvements might have led to significant adjustments in this 2018 consolidated Interim Report in respect of valuation, the determination of the result and the disclosures of the bank.

APPLIED ACCOUNTING STANDARDS ADOPTED BY THE EU EFFECTIVE ON OR AFTER 1 JANUARY 2018

- IFRS 9 Financial Instruments and Amendments to IFRS 9 and IFRS 7: IFRS 9 has replaced IAS 39 Financial Instruments almost entirely, apart from the macro hedge accounting section. The EU adopted the new standard on 22 November 2016 and is effective on 1 January 2018, with different parts being implemented retrospectively and prospectively. As a result of the amendments, a number of new provisions and textual changes have been implemented in the disclosure requirements (IFRS 7). For further details, please refer to 'Explanation of the consequences of IFRS 9' below;
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15: This standard replaces a number of standards and interpretations concerning revenue recognition and applies to client contracts which do not fall under the scope of IAS 17, IAS 39 or IFRS 9, IFRS 4, IFRS 10, IFRS 11, IAS 27 and IAS 28. The EU adopted IFRS 15 on 22 September 2016 and is effective effect on 1 January 2018. The bank examined which types of commission received meet this new standard. The standard has no impact on BNG Bank's result and equity;
- Clarification to IFRS 15 Revenue from Contracts with Customers: These clarifications to IFRS 15 are effective on 1 January 2018. The EU endorsed the Clarifications on 31 October 2017. See also the previous item;
- Amendment to IFRS 4 Insurance Contract, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: This standard is effective on 1 January 2018. The EU has endorsed the Amendment on 3 November 2017. The standard does not apply to the bank, as BNG Bank does not issue insurance contracts;
- Annual Improvements to IFRSs 2014-2016 cycle: These improvements relate to standards IAS 28, IFRS 1 and IFRS 12. The improvements under IFRS 12 are effective prospectively on 1 January 2017 and those under IAS 28 and IFRS 1 on 1 January 2018. The improvements have no implications for the equity, result and disclosures in BNG Bank's financial statements;
- Amendment to IFRS 2 Classification and Measurement Share based payment transactions: this amendment are effective on 1 January 2018. The EU endorsed this amendment on 26 February 2018. This amendment does not apply to the bank, as BNG Bank has no share-based payment transactions;
- Amendments to IAS 40 Transfers of Investment Property: these amendments are effective prospectively on 1 January 2018. The EU endorsed this amendment on 14 march 2018. These amendments do not apply to the bank, as BNG Bank has no investment property or property in inventory;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration: This interpretation concerns the treatment of non-monetary assets and liabilities in foreign currency and may be applied retrospectively or prospectively as of 1 January 2018. The EU has endorsed the IFRIC interpretation 22 on 3 April 2018. BNG Bank already complies with this interpretation.

UNAPPLIED ACCOUNTING STANDARDS ADOPTED BY THE EU EFFECTIVE ON OR AFTER 1 JANUARY 2018

- IFRS 16 Leases: This standard replaces the IAS 17 'Leases' standard, IFRIC 4, SIC-15 and SIC-27 and will take effect prospectively on 1 January 2019. The EU endorsed this standard on 31 October 2017. The standard introduces a new lease framework; both lessee and lessor are required to recognise all assets and liabilities under the lease contract. BNG Bank concludes several operational lease contracts every year for its own use. The effect of this standard on BNG Bank is very limited;
- Amendments to IFRS 9 Prepayment Features with Negative Compensation: Clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The EU endorsed this amendment on 22 march 2018. The amendments have no impact on BNG Bank's results and equity.

UNAPPLIED ACCOUNTING STANDARDS NOT YET ADOPTED BY THE EU

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of assets between an investor and its associate or joint venture: These amendments state how a share in an associate or joint venture should be measured (in connection with fair value) if a subsidiary is deconsolidated. The effective date was 1 January 2016, but has been postponed indefinitely. These amendments apply prospectively to BNG Bank after the final effective date if the bank decides to sell part of its share in its subsidiaries. The EU is waiting to the response of the IASB on a number of matters before the endorsement process will start;
- IFRS 14 Regulatory Deferral Accounts: this standard applies to First-Time Adopters and will take effect prospectively on 1 January 2016. The European Commission has postponed the processing of this standard pending the definitive version. This standard does not apply to BNG Bank;
- Amendments to IAS 28 Long-term Interests in Associates and Joint ventures: Clarification that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. The EU is expected to grant approval in 2018. BNG Bank already applies the equity method. No impact is expected;
- IFRS 17 Insurance Contracts: this standard replaces IFRS 4 and enters into retrospective effect on 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. This standard does not apply to BNG Bank;
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments: IFRIC 23 is applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates in the case of uncertainty over income tax treatments under IAS 12. This interpretation should be applied retrospectively as at 1 January 2019, without adjustment of comparative figures. The EU is expected to grant approval in 2018. BNG Bank is examining the impact;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017): This improvement cycle result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments to IFRS 3 'business combinations', IAS 12 Income Taxes and IAS 23 Borrowing costs. The amendments will be effective on or after 1 January 2019. BNG Bank does not expect that the amendments will have material impact. The amendments are not yet endorsed by the EU;

- Amendments to IAS 19, Employee Benefits: In February 2018, the IASB issued amendments to IAS 19, which address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments require entities to use the updated actuarial assumption to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective prospectively for plan amendments, curtailments or settlements that occur on or after 1 January 2019. The impact on the bank's equity and result is not material;
- Conceptual Framework: In March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the 'Framework'). The Framework sets out the fundamental concepts of financial reporting that guide the IASB in developing IFRS Standards. The amended Framework seeks to improve the concepts for reporting assets, liabilities, income and expenses, explains how to decide when asset and liabilities should be measured using historical cost and when they should be measured at current value, and provides up-to-date tools that will help the IASB in setting IFRS Standards. It underpins existing IFRS Standards but does not override them. Preparers use the Framework as a point of reference to develop accounting policies in rare instances where a particular business transaction is not covered by existing IFRS Standards. The IASB and the IFRS Interpretations Committee will begin to use the new Framework immediately in developing new, or amending existing, financial reporting standards and interpretations. The Framework becomes effective in annual periods beginning on 1 January 2020. The bank is currently assessing the effect of the amended Framework on its financial accounting policies.

EXPLANATION OF THE CONSEQUENCES OF IFRS 9

IFRS 9 'Financial Instruments' has replaced IAS 39 'Financial Instruments' almost entirely, apart from the macro hedge accounting section. The new standard was adopted by the EU in November 2016 and is compulsory for financial years commencing on or after 1 January 2018. The IFRS 9 standard can be divided into three parts: 'Classification and Measurement', 'Hedge Accounting' and 'Impairment'. Below the new IFRS 9 accounting principles are disclosed and subsequent the IFRS 9 consequences for BNG Bank's equity, the classification of financial assets on the balance sheet, the result and the disclosures in the financial statements will be elaborated.

IFRS 9 ACCOUNTING PRINCIPLES APPLIED AS OF 1 JANUARY 2018

CLASSIFICATION OF FINANCIAL INSTRUMENTS

BNG Bank classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on BNG Banks business model for managing financial assets and the contractual terms of the financial assets' cash flows.

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

FINANCIAL ASSETS MEASURED AT AMORTISED COST

Financial instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest (SPPI test) on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

DEBT INSTRUMENTS

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in Impairment of financial assets.

EQUITY INSTRUMENTS

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

FINANCIAL ASSETS OR LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT

Items at fair value through profit or loss comprise:

- items specifically designated as fair value through profit or loss on initial recognition; and
- debt instruments with contractual terms that do not represent solely payments of principal and interest (mandatory).

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise. Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

FINANCIAL INSTRUMENTS DESIGNATED AS MEASURED AT FAIR VALUE THROUGH THE INCOME STATEMENT

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

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- if a host contract contains one or more embedded derivatives; or
- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are contracts whose value is derived from one or more underlying prices, indexes or other variables, and typically comprise of instruments such as swaps, forward rate agreements, futures and options. All derivatives are recognised in the balance sheet at fair value and are classified as held for trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

HEDGE ACCOUNTING

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

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

FAIR VALUE HEDGING ACCOUNTING

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

MICRO HEDGE ACCOUNTING

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

MACRO HEDGE ACCOUNTING

There are no implications for the portfolio fair value hedge accounting (or macro hedge accounting), as IAS 39 remains applicable.

CASH FLOW HEDGE ACCOUNTING

When a derivative is designated as the hedging instrument in a cash flow hedge relationship the effective portion of changes in the fair value of the derivative is recognised and presented in the cash flow hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the cash flow hedge reserve is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and the cash flow hedge reserve. BNG bank applies cash flow hedge accounting momentarily on floating foreign currency transactions. The balance sheet line items Funds entrusted and Debt securities are involved.

FOREIGN CURRENCY BASIS SPREAD

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

DISCONTINUANCE OF HEDGE ACCOUNTING

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

IMPAIRMENT OF FINANCIAL ASSETS

From 1 January 2018, BNG Bank assesses on a forward-looking basis the expected credit losses (ECL) for the following categories of financial assets that are not measured at fair value through profit or loss:

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

No ECL is recognised on equity investments. Financial assets migrate through the following three stages based on the change in credit risk since initial recognition.

STAGE 1: 12-MONTHS ECL

BNG Bank recognises an ECL allowance reflecting default events that are possible within the next 12 months for exposures without a significant increase in credit risk since initial recognition and without payment arrears exceeding 30 days. The 12-month ECL allowance is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and incorporates forward-looking information.

STAGE 2: LIFETIME ECL – NOT CREDIT-IMPAIRED

BNG Bank recognises an ECL allowance reflecting default events that are possible during the remaining lifetime of the financial assets for exposures that have had a significant increase in credit risk since initial recognition, but are not considered as credit-impaired. This mainly includes exposures with a credit rating that is not considered to be investment grade and for which the credit rating dropped at least 1 notch since initial recognition. In addition, it also includes (as a backstop) exposures with payment arrears between 30 and 90 days, as well as exposures subject to forbearance measures. The Stage 2 lifetime ECL is calculated for all individual exposures as a function of the Exposure At Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) and incorporates forward-looking information.

STAGE 3: LIFETIME ECL – CREDIT-IMPAIRED

BNG Bank assesses both on an individual exposure level whether exposures are credit-impaired. This assessment is based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. This includes, but is not limited to, exposures with payment arrears exceeding 90 days. In case BNG Bank determines that a counterparty is in default, all related financial assets are considered to be in Stage 3. For exposures that have become credit-impaired, the bank recognises a lifetime ECL that is determined by taking into account all relevant information, including any collateral or guarantees that apply to the exposure at hand.

DETERMINING THE STAGE FOR IMPAIRMENT

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. BNG Bank also makes use of the Low Credit Risk Exemption (LCRE). This entails that exposures with a (Point-in-Time) risk of default that is considered to be in line with investment-grade ratings are considered not to have undergone a significant increase in credit risk. An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the ECL allowance reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination are considered to have a low credit risk. The allowance for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement. BNG Bank assesses whether the credit risk on an exposure has increased significantly on an individual basis.

MEASUREMENT OF ECLS

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the bank in accordance with the contract and the cash flows that the bank expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

TRANSITION TO IFRS 9

The purpose of this section is to disclose the changes following the adoption of IFRS 9 with regards to classification & measurement, hedge accounting and impairment. The reported figures in this section include the movement of the figures reported in the 2017 Annual Report to the figures in accordance with IFRS 9 numbers as adopted from January 1, 2018.

The transition rules of IFRS 9 do not require a retrospective application to prior periods, accordingly the initial adoption effect is reflected in the opening balance of Shareholders' equity for the financial year 2018. Comparative periods in the notes in the following chapters in this report are presented according to IAS 39.

CHANGES IN EQUITY

The following table provides an overview of the changes in the bank's equity attributable to shareholders as a result of the transition to IFRS 9.

	CAPITAL	SHARE PREMIUM RESERVE	REVALU-ATION RESERVE	CASH FLOW HEDGE RESERVE	OWN CREDIT ADJUST-MENT	COST OF HEDGING RESERVE	OTHER RESERVES	UN-APPRO-PRIATED PROFIT	SHARE-HOLDERS
CLOSING BALANCE UNDER IAS 39	**139**	**6**	**259**	**193**	**9**	**0**	**3,221**	**393**	**4,220**
RECLASSIFICATION AND REMEASUREMENT OF FINANCIAL ASSETS:									
– from AFS to AC			41				–132		–91
– from AFS to FVTPL			–10				10		0
– from reclassified AFS to AC							129		129
– from AC to FVOCI			1				1		2
– from AC to FVTPL							1		1
– from FVTPL to AC							–36		–36
Discontinuation of IAS 39 cash flow hedge accounting				–258					–258
Application of IFRS 9 cash flow hedge accounting				26					26
Changes in equity due to changes in fair value hedge accounting			–127			30	1		–96
Changes in credit loss allowances			1				–33		–32
Changes in deferred taxes			24	58		–8	16		90
Changes in current taxes							–1		–1
TOTAL IFRS 9 IMPACT	**0**	**0**	**–70**	**–174**	**0**	**22**	**–44**	**0**	**–266**
OPENING BALANCE UNDER IFRS 9	**139**	**6**	**189**	**19**	**9**	**22**	**3,177**	**393**	**3,954**

CLASSIFICATION AND MEASUREMENT

	IAS 39	RECLASSIFI-CATIONS	REMEASURE-MENTS	IFRS 9
RECONCILIATION OF BALANCE SHEET POSITIONS FROM IAS 39 TO IFRS 9				
AMOUNTS DUE FROM BANKS (AC)				
Closing balance 31/12/2017 under IAS 39	**105**			
To: Financial assets at fair value through OCI (FVOCI)		−73	–	
To: Interest-bearing securities at amortised cost (AC)		−20	–	
Opening balance 01/01/2018 under IFRS 9				**12**
FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT (FVTPL)				
A. MANDATORILY MEASURED AT FVTPL				
Closing balance 31/12/2017 under IAS 39	**–**			
From: Financial assets at fair value through the income statement (Designated FVTPL)		126	–	
From: Loans & Advances (AC)		10	1	
Opening balance 01/01/2018 under IFRS 9				**137**
B. DESIGNATED MEASURED AT FVTPL				
Closing balance 31/12/2017 under IAS 39	**2,006**			
To: Financial assets at fair value through the income statement (Mandatorily FVTPL)		−126	–	
To: Interest-bearing securities at amortised cost (AC)		−209	–	
To: Loans and advances (AC)		−180	–	
Opening balance 01/01/2018 under IFRS 9				**1,491**
DERIVATIVES (FVTPL)				
Closing balance 31/12/2017 under IAS 39	**8,982**			
To: Loans and advances (AC)		−4	–	
Opening balance 01/01/2018 under IFRS 9				**8,978**
FINANCIAL ASSETS AVAILABLE-FOR-SALE (AFS)				
Closing balance 31/12/2017 under IAS 39	**14,110**			
To: Financial assets at fair value through OCI (FVOCI)		−10,670	–	
To: Interest-bearing securities at amortised cost (AC)		−3,440	–	
Opening balance 01/01/2018 under IFRS 9				**–**

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	IAS 39	RECLASSIFI-CATIONS	REMEASURE-MENTS	IFRS 9
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI (FVOCI)				
Closing balance 31/12/2017 under IAS 39	–			
From: Amounts due from banks (AC)		73	–	
From: Financial assets available-for-sale (AFS)		10,670	–	
From: Loans and advances (AC)		50	1	
Opening balance 01/01/2018 under IFRS 9				**10,794**
INTEREST-BEARING SECURITIES AT AMORTISED COST (AC)				
Closing balance 31/12/2017 under IAS 39	–			
From: Amounts due from banks (AC)		20	1	
From: Financial assets at fair value through the income statement (Designated FVTPL)		209	−3	
From: Financial assets available-for-sale (AFS)		3,440	−91	
From: Loans and advances (AC)		1,443	58	
Remeasurement Value adjustments of bonds involved in micro hedge accounting		–	70	
Remeasurement ECL allowance		–	−13	
Opening balance 01/01/2018 under IFRS 9				**5,134**
LOANS AND ADVANCES (AC)				
Closing balance 31/12/2017 under IAS 39	**86,008**			
To: Financial assets at fair value through the income statement (Mandatorily FVTPL)		−10	–	
To: Financial assets at fair value through OCI (FVOCI)		−50	–	
To: Interest-bearing securities at amortised cost (AC)		−1,443	–	
From: Financial assets at fair value through the income statement (Designated FVTPL)		180	−28	
From: Derivatives (FVTPL)		4	−4	
Remeasurement ECL allowance		–	−17	
Opening balance 01/01/2018 under IFRS 9				**84,640**
TOTAL CHANGES IN FINANCIAL ASSETS	**128,099**	**–**	**−25**	**128,074**
DEBT SECURITIES				
Closing balance 31/12/2017 under IAS 39	**104,127**			
Remeasurement Value adjustments of bonds involved in micro hedge accounting		–	196	
Opening balance 01/01/2018 under IFRS 9				**104,323**
TOTAL CHANGES IN FINANCIAL LIABILITIES	**104,127**	**–**	**196**	**104,323**

IMPAIRMENT

	LOAN LOSS ALLOWANCE UNDER IAS 39/ PROVISION UNDER IAS 37	RECLASSIFI-CATION	REMEASURE-MENTS	LOAN LOSS ALLOWANCE/ PROVISION UNDER IFRS 9
LOANS AND RECEIVABLES (IAS 39)/ FINANCIAL ASSETS AT AMORTISED COST (IFRS 9)				
Amounts due from banks	–	–	0	0
Interest-bearing securities at amortised cost		0	13	13
Loans and advances	34	–3	20	51
TOTAL	**34**	**–3**	**33**	**64**
AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS (IAS 39)/ FINANCIAL ASSETS AT FVOCI (IFRS 9)				
Financial assets available-for-sale	–	–	–	–
Financial assets at fair value through OCI	–	–	1	1
TOTAL	**–**	**–**	**1**	**1**
LOAN COMMITMENTS AND FINANCIAL GUARANTEE CONTRACTS				
Provision for off-balance sheet commitments	–	3	–1	2
TOTAL	**34**	**0**	**33**	**67**

HEDGE ACCOUNTING

IFRS 9 incorporates new hedge accounting rules that intend to better align hedge accounting with risk management practices. BNG Bank applies the new hedge accounting rules under IFRS 9 except the macro hedge accounting rules, for which BNG Bank will continue to apply IAS 39 rules. The application of micro hedge accounting for financial instruments in foreign currency is changed under IFRS 9. Under IFRS 9, cross-currency basic risk is not treated as hedged risk, but as cost of hedging. For BNG Bank, this means that value movements arising from the cross-currency basis spread can no longer be included under the cash flow hedge reserve. Instead, this cost of hedging will be included under a separate item in the unrealised portion of equity. Furthermore, the IFRS 9 micro hedge methodology of BNG Bank causes some remeasurements in hedged risk amounts. The impact on Equity caused by hedge accounting are a decrease of the cash flow hedge reserve of EUR 174 million and a decrease of the revaluation reserve of EUR 127 million. The new line item in equity Cost of hedging reserve amounts to EUR 22 million.

SEGMENTED INFORMATION

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

DIVIDEND

The proposed dividend of EUR 141 million for the 2017 financial year was paid out to the shareholders following the General Meeting of Shareholders held in the first half of 2018. In addition, EUR 25 million in dividend was distributed to the holders of the hybrid capital. This distribution is deductible from corporate income tax. The net impact on equity is EUR 19 million negative. BNG Bank has no plans to pay out an interim dividend on the result for the first half of 2018.

1 DEBT SECURITIES

As part of its long-term funding activities, BNG Bank issued EUR 9.3 billion of long-term debt securities in the first half of 2018 (first half of 2017: EUR 9.9 billion). The total redemption value of long-term debt securities amounted to EUR 9.5 billion in the reporting period (first half of 2017: EUR 8.3 billion). The increase in the Debt securities item of EUR 3.3 billion to EUR 107.4 billion can be explained mainly by the decrease in value of the euro against the US dollar.

2 INTEREST RESULT

	FIRST HALF OF 2018		FIRST HALF OF 2017	
INTEREST INCOME				
Interest income calculated using the effective interest method:				
– Financial assets at amortised cost	1,124		1,174	
– Financial assets at fair value through other comprehensive income	95		–	
– Financial assets available-for-sale	–		127	
– Derivatives involved in hedge accounting	1,354		1,423	
– Negative interest expenses on financial liabilities	23		18	
– Other	–		4	
		2,596		**2,746**
Other interest income:				
– Financial assets at fair value through the income statement	26		29	
– Derivatives not involved in hedge accounting	256		198	
– Other		282		227
TOTAL INTEREST INCOME		**2,878**		**2,973**
INTEREST EXPENSES				
Interest expenses calculated using the effective interest method:				
– Financial liabilities at amortised cost	1,161		1,118	
– Derivatives involved in hedge accounting	1,392		1,514	
– Negative interest income on financial assets	51		60	
		2,604		**2,692**
Other interest expenses				
– Financial liabilities at fair value through the income statement	18		21	
– Derivatives not involved in hedge accounting	33		35	
– Other	3		3	
		54		**59**
TOTAL INTEREST EXPENSES		**2,658**		**2,751**
TOTAL INTEREST RESULT		**220**		**222**

3 RESULT ON FINANCIAL TRANSACTIONS

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

	FIRST HALF OF 2018		FIRST HALF OF 2017	
MARKET VALUE CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT RESULTING FROM CHANGES IN CREDIT AND LIQUIDITY SPREADS				
– Interest-bearing securities	24		42	
– Structured loans	3		−3	
		27		**39**
RESULT FROM HEDGE ACCOUNTING				
– Portfolio fair value hedge accounting	10		20	
– Micro fair value hedge accounting	−1		−13	
– Micro cash flow hedge accounting	0		0	
		9		**7**
Change in counterparty credit risk of derivatives (CVA/DVA)		5		30
Realised sales and buy-out results		19		32
Other market value changes		25		24
TOTAL		**85**		**132**

In the reporting period, the result on financial transactions was positively influenced by unrealised results, mainly arising from incoming credit and liquidity risk spreads of a number of interest-bearing securities recorded under Financial assets at fair value through the income statement, realised sales and buy-out results. The other market value changes include unrealised market value changes of derivatives not involved in hedge accounting and financial assets and liabilities at fair value through the income statement.

4 IMPAIRMENTS ON FINANCIAL ASSETS

ALLOWANCES CLASSIFIED BY IFRS 9 BALANCE SHEET ITEMS

				30/06/2018
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Amounts due from banks	0	0	0	0
Interest-bearing securities at FVOCI	0	1	0	1
Interest-bearing securities at AC	1	3	8	12
Loans and advances	5	25	18	48
Provision for off-balance sheet commitments	1	1	0	2
TOTAL ALLOWANCES/PROVISIONS	**7**	**30**	**26**	**63**

MOVEMENT IN ALLOWANCES FOR CREDIT LOSSES

				FIRST HALF OF 2018
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Opening balance	6	32	29	67
Increases due to origination and acquisition	2	2	0	4
Decreases due to derecognition	−1	−4	–	−5
Changes due to changes in credit risk (net)	0	0	−3	−3
TOTAL ALLOWANCES/PROVISIONS	**7**	**30**	**26**	**63**

MOVEMENT IN ALLOWANCES FOR CREDIT LOSSES UNDER IAS 39

	FIRST HALF OF 2017
Addition to the incurred loss provision for loans and advances	3
Release from the incurred loss provision for loans and advances	0
Impairment of financial assets available-for-sale	–
TOTAL	**3**

Total net impairments on financial transactions amounted to EUR 4 million positive in the first half of 2018 (first half of 2017: EUR 3 million negative).

BREAKDOWN OF FINANCIAL INSTRUMENTS BY CATEGORY

					30/06/2018
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	TOTAL
Cash and balances held with central banks	8,526				8,526
Amounts due from banks	32				32
Cash collateral posted	12,166				12,166
Financial assets at fair value through the income statement		1,614			1,614
Derivatives			9,142		9,142
Financial assets at fair value through other comprehensive income				10,342	10,342
Interest-bearing securities at amortised cost	6,101				6,101
Loans and advances	84,329				84,329
Value adjustments on loans involved in portfolio hedge accounting	11,598				11,598
TOTAL ASSETS	**122,752**	**1,614**	**9,142**	**10,342**	**143,850**
Amounts due to banks	3,336				3,336
Cash collateral received	466				466
Financial liabilities at fair value through the income statement		819			819
Derivatives			20,416		20,416
Debt securities	107,391				107,391
Funds entrusted	6,311				6,311
Subordinated debts	31				31
TOTAL LIABILITIES	**117,535**	**819**	**20,416**	**–**	**138,770**

					31/12/2017
	FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES	FINANCIAL ASSETS AVAILABLE-FOR-SALE	TOTAL
Cash and balances held with central banks	2,996				2,996
Amounts due from banks	13,997				13,997
Financial assets at fair value through the income statement		2,006			2,006
Derivatives			8,982		8,982
Financial assets available-for-sale				14,110	14,110
Loans and advances	86,008				86,008
Value adjustments on loans involved in portfolio hedge accounting	11,813				11,813
Assets classified as held for sale				30	30
TOTAL ASSETS	**114,814**	**2,006**	**8,982**	**14,140**	**139,942**
Amounts due to banks	2,393				2,393
Financial liabilities at fair value through the income statement		944			944
Derivatives			21,870		21,870
Debt securities	104,127				104,127
Funds entrusted	5,472				5,472
Subordinated debts	31				31
TOTAL LIABILITIES	**112,023**	**944**	**21,870**	**–**	**134,837**

LONG-TERM FOREIGN EXPOSURE

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

	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
							30/06/2018
Supranational institutions	369	155				524	542
Multilateral development banks	663					663	803
Austria		603				603	713
Belgium		375		141		516	633
Denmark	90					90	91
Finland		675				675	779
France	527	712	100		45	1,384	1,698
Germany	1,385	30	19			1,434	1,788
Italy		32	25	269	58	384	418
Portugal			50	53	180	283	293
Spain	49	293	383	78	107	910	1,009
Switzerland			102			102	117
United Kingdom	614	350	284	262	75	1,585	2,109
United States	21					21	21
TOTAL	**3,718**	**3,225**	**963**	**803**	**465**	**9,174**	**11,014**

	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
							31/12/2017
Supranational institutions	464	230				694	730
Multilateral development banks	660					660	733
Austria		653				653	794
Belgium		400		145		545	689
Denmark	90					90	91
Finland		676				676	784
France	457	912	100		46	1,515	1,859
Germany	1,385	70				1,455	1,802
Italy		38	26	272	59	395	443
Portugal			54	56	180	290	281
Spain		228	372	352	115	1,067	1,111
Switzerland			106			106	123
United Kingdom	542	341	280	258	79	1,500	2,117
United States	21					21	21
TOTAL	**3,619**	**3,548**	**938**	**1,083**	**479**	**9,667**	**11,578**

At the end of the first half of the year, the remaining principal amount of the non-investment grade exposure was EUR 465 million (2017: EUR 479 million). Of this amount, EUR 285 million consists of interest-bearing securities (IBS). These IBSs relate to a limited number of exposures in Spain, Portugal and Italy, most of which are measured at amortised cost. The rest of the non-investment grade exposure (EUR 180 million) consists of a limited number of loans in France, the United Kingdom and Portugal. The French and British exposures mainly involve project financing in the area of infrastructure, education, energy and healthcare. In the first half of the year, the balance sheet value of long-term foreign exposures declined by EUR 564 million to EUR 11,014 million, largely due to redemptions and sales.

INVESTMENTS IN INTEREST-BEARING SECURITIES (IBS)

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

The amounts shown below per rating category are remaining principal amounts in millions of euros. The total balance sheet value (gross of impairment) is also shown in the final column. The total value of EUR 17,400 million is recognised in the balance sheet items Financial assets at fair value through other comprehensive income (EUR 10,342 million), Interest-bearing securities at amortised cost (EUR 6,114 million) and Financial assets at fair value through the income statement (EUR 944 million).

							30/06/2018
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	5,501	2,478	220	255	46	8,500	10,064
Level I B – Covered bonds	1,176					1,176	1,240
Level II A – Government/ Supranational		57		4		61	96
Level II B – Corporates			25			25	26
Level II B – RMBS	1,221					1,221	1,229
	7,898	**2,535**	**245**	**259**	**46**	**10,983**	**12,655**
ALM PORTFOLIO							
RMBS		305	167	131	61	664	662
ABS		66	152	30	58	306	306
NHG	1,496		302			1,798	1,792
Other	317	388	399	217	120	1,441	1,985
	1,813	**759**	**1,020**	**378**	**239**	**4,209**	**4,745**
TOTAL	**9,711**	**3,294**	**1,265**	**637**	**285**	**15,192**	**17,400**

							31/12/2017
	AAA	AA	A	BBB	NON-INVESTMENT GRADE	TOTAL NOMINAL VALUE	TOTAL BALANCE SHEET VALUE
LIQUIDITY PORTFOLIO							
Level I – Government/ Supranational	5,086	2,897		475	46	8,504	10,162
Level I B – Covered bonds	1,061	70				1,131	1,208
Level II A – Government/ Supranational		56		6		62	100
Level II B – Corporates			25			25	28
Level II B – RMBS	1,261					1,261	1,276
	7,408	**3,023**	**25**	**481**	**46**	**10,983**	**12,774**
ALM PORTFOLIO							
RMBS		196	301	137	69	703	634
Covered bonds			70			70	71
ABS	68		164	33	59	324	324
NHG	920		419	2		1,341	1,346
Other	47	330	403	218	120	1,118	1,713
	1,035	**526**	**1,357**	**390**	**248**	**3,556**	**4,088**
TOTAL	**8,443**	**3,549**	**1,382**	**871**	**294**	**14,539**	**16,862**

FORBORNE EXPOSURES

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

				30/06/2018
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
FINANCIAL ASSETS (EXCLUDING DERIVATIVES)				
Cash and balances with central banks	8,526	–	–	0.0%
Amounts due from banks	32	–	–	0.0%
Cash collateral posted	12,166	–	–	0.0%
Financial assets at fair value through the income statement	1,614	–	–	0.0%
Financial assets at fair value through other comprehensive income	10,342	–	–	0.0%
Interest-bearing securities at amortised cost	6,101	–	–	0.0%
Loans and advances	84,329	221	205	0.2%
TOTAL	**123,110**	**221**	**205**	**0.2%**
OFF-BALANCE SHEET COMMITMENTS				
Contingent liabilities	80	–	–	0.0%
Revocable facilities	6,215	–	–	0.0%
Irrevocable facilities	7,237	–	–	0.0%
TOTAL	**13,532**	**–**	**–**	**0.0%**

				31/12/2017
		OF WHICH: FORBORNE		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
FINANCIAL ASSETS (EXCLUDING DERIVATIVES)				
Cash and balances with central banks	2,996	–	–	0.0%
Amounts due from banks	13,997	–	–	0.0%
Financial assets at fair value through the income statement	2,006	–	–	0.0%
Financial assets available-for-sale	14,110	–	–	0.0%
Loans and advances	86,008	240	234	0.3%
TOTAL	**119,117**	**240**	**234**	**0.2%**
OFF-BALANCE SHEET COMMITMENTS				
Contingent liabilities	78	–	–	0.0%
Revocable facilities	5,839	–	–	0.0%
Irrevocable facilities	6,865	2	2	0.0%
TOTAL	**12,782**	**2**	**2**	**0.0%**

The credit agreements for which the contractual terms have changed as a result of the debtor's unfavourable financial position amounted to EUR 221 million (gross of impairment) at 30 June 2018 (31 December 2017: EUR 242 million). The total forborne exposure concerns 4 debtors (year-end 2017: 4 debtors). No new forbearance measures were taken by the bank in the first half of 2018.

NON-PERFORMING EXPOSURES

Non-performing exposures are exposures:

- for which the contractual conditions have been breached by the debtor and/or have payment arrears ('past due') exceeding 90 days ('default'); 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
- that are credit-impaired.

The term 'past due' refers to the payment arrears commencing at the moment on which payment was contractually due.

An exposure classified as non-performing can once again be regarded as performing if all of the following conditions are met:

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

Credit-impaired exposures are financial assets measured at amortised cost or fair value through other comprehensive income and off-balance sheet exposures for which a Stage 3 credit loss allowance was made (2017: financial assets at amortised cost and off-balance sheet exposures for which an individual provision was made). Exposures classified under Stage 1 or 2 (2017: under the IBNI provision) are not classified as credit-impaired exposures.

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

				30/06/2018
		OF WHICH: NON-PERFORMING		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
FINANCIAL ASSETS (EXCLUDING DERIVATIVES)				
Cash and balances with central banks	8,526	–	–	0.0%
Amounts due from banks	32	–	–	0.0%
Cash collateral posted	12,166	–	–	0.0%
Financial assets at fair value through the income statement	1,614	–	–	0.0%
Financial assets at fair value through other comprehensive income	10,342	–	–	0.0%
Interest-bearing securities at amortised cost	6,101	21	13	0.2%
Loans and advances	84,329	55	37	0.0%
TOTAL	**123,110**	**76**	**50**	**0.0%**
OFF-BALANCE SHEET COMMITMENTS				
Contingent liabilities	80	–	–	0.0%
Revocable facilities	6,215	–	–	0.0%
Irrevocable facilities	7,237	–	–	0.0%
TOTAL	**13,532**	**–**	**–**	**0.0%**

				31/12/2017
		OF WHICH: NON-PERFORMING		
	TOTAL EXPOSURE	GROSS OF IMPAIRMENT	NET OF IMPAIRMENT	IN % OF TOTAL
FINANCIAL ASSETS (EXCLUDING DERIVATIVES)				
Cash and balances with central banks	2,996	–	–	0.0%
Amounts due from banks	13,997	–	–	0.0%
Financial assets at fair value through the income statement	2,006	–	–	0.0%
Financial assets available-for-sale	14,110	–	–	0.0%
Loans and advances	86,008	52	33	0.0%
TOTAL	**119,117**	**52**	**33**	**0.0%**
OFF-BALANCE SHEET COMMITMENTS				
Contingent liabilities	78	–	–	0.0%
Revocable facilities	5,839	–	–	0.0%
Irrevocable facilities	6,865	–	–	0.0%
TOTAL	**12,782**	**–**	**–**	**0.0%**

The table below shows the movements in non-performing exposures (gross of impairment). The shift from performing to non-performing exposure of EUR 19 million is caused by three clients. One client's exposure shifted from non-performing to performing in the first half of 2018. The increase in existing non-performing exposure with a Stage 3 credit loss allowance of EUR 8 million is caused by the remeasurement of a Spanish securitisation. Under IAS 39 this impairment amount was recognised as a write-off in the income statement. Upon the transition to IFRS 9, the gross carrying amount was increased by this amount (from EUR 13 to EUR 21 million), and was simultaneously recognised as a Stage 3 credit loss allowance. As a result, the net carrying amount of this exposure remained unchanged.

	FIRST HALF OF 2018	2017
OPENING BALANCE	**52**	**154**
– Increase in existing non-performing exposure not requiring a Stage 3 credit loss allowance (2017 individual provision).	0	–
– Increase in existing non-performing exposure with a Stage 3 credit loss allowance (2017 individual provision)	8	–
– Shift from performing to non-performing exposure	19	12
– Shift from non-performing to performing exposure	–1	–104
– Repayments on and settlement of non-performing exposure	–2	–10
CLOSING BALANCE	**76**	**52**

CREDIT LOSS ALLOWANCE POLICY FOR LOANS AND ADVANCES, INTEREST BEARING SECURITIES AND OFF BALANCE COMMITMENTS

BNG Bank employs a number of triggers that may lead to an Stage 3 credit loss allowance (2017: individual loan loss provision):

- an internal credit rating of 14 of higher; or
- payment arrears and/or a breach of the contractual terms exceeding 90 days ('default') and/or the debtor is no longer expected to meet its payment obligations ('unlikely to pay').

The credit loss allowances for exposures in Stage 1 and 2 are calculated at an individual exposure basis using the exposure at default (EAD), loss given default (LGD) and probability of default (PD), the latter of which incorporates forward-looking information.

MATURITY ANALYSIS OF PERFORMING PAST DUE EXPOSURES

For the June 2018 figures this comprises past due exposures that are not included in impairment Stage 3 under IFRS 9. For the December 2017 figures this comprises past due exposures that were not subject to an individual loan loss provision under IAS 39.

	30/06/2018	31/12/2017
Less than 31 days	1	1
31 through 60 days	–	–
61 through 90 days	–	–
Over 90 days	–	3
CLOSING BALANCE	**1**	**4**

NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)

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

			30/06/2018
	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance-sheet netting	9,515	20,789	**−11,274**
Gross value of the financial liabilities to be netted	373	373	**–**
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**9,142**	**20,416**	**−11,274**
Value of financial netting instrument that does not comply with IAS 32 (Netting of derivatives with the same counterparty) for netting purposes	7,725	7,725	**–**
EXPOSURE BEFORE COLLATERAL	**1,417**	**12,691**	**−11,274**
Value of financial collateral that does not comply with IAS 32 for netting purposes	450	12,602	**−12,152**
NET EXPOSURE	**967**	**89**	**878**

	DERIVATIVES STATED AS ASSETS	DERIVATIVES STATED AS LIABILITIES	NET
			31/12/2017
NETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (DERIVATIVES)			
Gross value of financial assets and liabilities before balance-sheet netting	9,323	22,211	**−12,888**
Gross value of the financial liabilities to be netted	341	341	−
BALANCE SHEET VALUE OF FINANCIAL ASSETS AND LIABILITIES (AFTER NETTING)	**8,982**	**21,870**	**−12,888**
Value of financial netting instrument that does not comply with IAS 32 (Netting of derivatives with the same counterparty) for netting purposes	7,566	7,566	−
EXPOSURE BEFORE COLLATERAL	**1,416**	**14,304**	**−12,888**
Value of financial collateral that does not comply with IAS 32 for netting purposes	369	14,326	**−13,957**
NET EXPOSURE	**1,047**	**−22**	**1,069**

At 30 June 2018, the collateral posted amounted to EUR 12.2 billion (2017: EUR 13.6 billion). A three-notch downgrade of BNG Bank's credit rating would increase this amount by EUR 11 million (2017: EUR 35 million). The strength of the bank's liquidity position is sufficient to meet, and to absorb fluctuations in, collateral obligations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

FAIR VALUE HIERARCHY

- **LEVEL 1**: valuation based on (unadjusted) quoted market prices of the instrument itself or, if unavailable, of identical instruments, in an active market. A financial instrument is regarded as quoted in an active market if the quoted price is regularly available, and if these prices reflect current and regularly occurring arm's length market transactions. The quoted market prices for financial assets and liabilities are based on mid-market prices.

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

Where possible, BNG Bank uses quoted market prices (Level 1). Quoted market prices are based on bid prices (for financial assets) and ask prices (for financial liabilities). Using mid-market prices is permitted if the market risk of the financial assets and liabilities is offset. BNG Bank uses mid-market prices 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 and management estimates which are not publicly observable in the market (Level 3).

A 'Credit Valuation Adjustment (CVA)' for the counterparty credit risk is included in the determination of the fair value for all derivatives 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 derivatives 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 derivatives 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.

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

	30/06/2018		31/12/2017	
	BALANCE SHEET VALUE	FAIR VALUE	BALANCE SHEET VALUE	FAIR VALUE
Cash and balances held with central banks	8,526	8,526	2,996	2,996
Amounts due from banks	32	32	105	106
Cash collateral posted	12,166	12,167	13,892	13,892
Financial assets at fair value through the income statement	1,614	1,614	2,006	2,006
Derivatives	9,142	9,142	8,982	8,982
Financial assets available-for-sale			14,110	14,110
Financial assets at fair value through other comprehensive income	10,342	10,342		
Interest-bearing securities at amortised cost	6,101	6,168		
Loans and advances	84,329	98,052	86,008	99,811
TOTAL FINANCIAL ASSETS	**132,252**	**146,043**	**128,099**	**141,903**
Amounts due to banks	3,336	3,334	2,079	2,078
Cash collateral received	466	466	369	369
Financial liabilities at fair value through the income statement	819	819	944	944
Derivatives	20,416	20,416	21,870	21,870
Debt securities	107,391	108,603	104,127	105,595
Funds entrusted	6,311	6,537	5,417	5,688
Subordinated debts	31	45	31	46
TOTAL FINANCIAL LIABILITIES	**138,770**	**140,220**	**134,837**	**136,590**

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

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

				30/06/2018
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	93	1,161	360	1,614
Derivatives	–	9,133	9	9,142
Financial assets at fair value through other comprehensive income	10,203	139	–	10,342
TOTAL FINANCIAL ASSETS	**10,296**	**10,433**	**369**	**21,099**
Financial liabilities at fair value through the income statement	–	819	–	819
Derivatives	–	20,406	10	20,416
TOTAL FINANCIAL LIABILITIES	**–**	**21,225**	**10**	**21,235**

				31/12/2017
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets at fair value through the income statement	94	1,289	623	2,006
Derivatives	–	8,969	13	8,982
Financial assets available-for-sale	10,790	3,320	–	14,110
TOTAL FINANCIAL ASSETS	**10,884**	**13,578**	**636**	**25,098**
Financial liabilities at fair value through the income statement	–	944	–	944
Derivatives	–	21,857	13	21,870
TOTAL FINANCIAL LIABILITIES	**–**	**22,801**	**13**	**22,814**

		FIRST HALF OF 2018				
		FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		DERIVATIVES (STATED AS LIABILITIES
OPENING BALANCE IAS 39		**623**		**13**		**13**
IMPACT IFRS 9		**–256**		**–**		**–**
OPENING BALANCE IFRS 9		**367**		**13**		**13**
Results through the income statement						
– Interest result	6		2		3	
– Unrealised result on financial transactions	−9		−4		−4	
– Realised result on financial transactions	0		0		0	
		−3		−2		−1
Unrealised value adjustments via the revaluation reserve		–		–		–
Investments		–		–		–
Cash flows		−4		−2		−2
Transferred to Level 2		–		–		–
Transferred from Level 2		–		–		–
Derivatives transferred from assets to liabilities and vice versa		–		–		–
CLOSING BALANCE		**360**		**9**		**10**

	2017			
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT	DERIVATIVES (STATED AS ASSETS)	FINANCIAL ASSETS AVAILABLE-FOR-SALE	DERIVATIVES (STATED AS LIABILITIES)
OPENING BALANCE	**654**	**26**	**25**	**31**
Results through the income statement				
– Interest result	12	6	0	6
– Unrealised result on financial transactions	–3	–16	0	–20
– Realised result on financial transactions	0	0	0	0
	9	–10	0	–14
Unrealised value adjustments via the revaluation reserve	–	–	1	–
Investments	–	–	–30	–
Cash flows	–40	–3	4	–4
Transferred to Level 2	–	–	–	–
Transferred from Level 2	–	–	–	–
Derivatives transferred from assets to liabilities and vice versa	–	–	–	–
CLOSING BALANCE	**623**	**13**	**0**	**13**

The Level 3 items primarily concern structured interest-bearing securities that are rarely traded. Because there is no such trade, the observable market data available for similar securities are not fully representative of the current fair value. Therefore, the fair value of these transactions is determined on the basis of public market data that are adjusted using significant input variables not publicly observable in the market. There were no reclassifications from and to Level 3 during the reporting period. The impact of IFRS 9 on the financial assets at fair value through the income statement of EUR 256 million negative is due to the reclassification of financial assets to amortised cost, following the outcome of the business model test and the SPPI test for these instruments.

INPUT VARIABLES WHICH ARE NOT PUBLICLY OBSERVABLE IN THE MARKET

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

FINANCIAL ASSETS AT FAIR VALUE

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

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

These input variables remained unchanged compared to 2017.

FINANCIAL ASSETS AVAILABLE-FOR-SALE

In determining the market value of two participations in an infrastructure fund, the price was established on the basis of the fund's net asset value.

DERIVATIVES (ASSETS AND LIABILITIES)

The relevant derivatives (assets and liabilities) contain a Level 3 floor option. This option acquires value if the variable interest rate drops below 0%. The underlying curve is modelled because there are no publicly observable input variables in the market.

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

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

IMPACT ON BALANCE SHEET VALUE OF A MOVEMENT IN RELEVANT INPUT FACTORS

	30/06/2018	31/12/2017	30/06/2018	31/12/2017	30/06/2018	31/12/2017	30/06/2018	31/12/2017
	FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT		DERIVATIVES (STATED AS ASSETS)		DERIVATIVES (STATED AS LIABILITIES)		TOTAL	
BALANCE SHEET VALUE	360	623	9	13	10	−13	360	623
INTEREST RATE								
+10 basis points	−8	−8	−3	−3	0	0	−11	−11
−10 basis points	8	8	3	3	0	0	11	11
+100 basis points	−68	−69	−27	−32	4	3	−91	−98
−100 basis points	90	94	28	34	−5	−5	113	123
INFLATION RATE								
+10 basis points	8	8	0	0	0	0	8	8
−10 basis points	−7	−8	0	0	0	0	−7	−8
+100 basis points	86	90	0	0	0	0	86	90
−100 basis points	−65	−67	0	0	0	0	−65	−67
CREDIT AND LIQUIDITY RISK SPREADS								
+10 basis points	−8	−9	1	2	2	1	−5	−6
−10 basis points	8	10	−1	−1	−2	−1	5	8
+100 basis points	−67	−83	19	28	8	1	−40	−54
−100 basis points	91	110	−3	−8	−25	−20	63	82
TOTAL SIGNIFICANT INPUT FACTORS								
+10 basis points	−8	−10	−2	−2	2	2	−8	−10
−10 basis points	8	10	2	2	−2	−2	8	10
+100 basis points	−68	−83	−8	−6	8	6	−68	−83
−100 basis points	94	115	25	27	−25	−25	94	117

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

A large part of the level 3 instruments in the Financial assets at fair value through the income statement balance sheet item (EUR 350 million) consists of so-called inflation-linked bonds, where the interest rate risk and inflation risk have been hedged using swaps. The default risk of these transactions is insured upon purchase through a guarantee issued by a so-called monoline insurer. If the value of such guarantees were set at zero, this would have had an unrealised negative effect on the result on financial transactions of EUR 74 million at mid-year 2018 (year-end 2017: EUR 63 million negative). At the end of 2017 the Financial assets available-for-sale item, an infrastructure fund transaction with a balance sheet value of EUR 30 million is reclassified to the Held for sale item. It has been settled in the first half year of 2018. The remaining fair value level 3 equity instruments are under IFRS 9 reclassified to Financial assets at fair value through the income statement balance sheet item. The Financial assets at fair value through other comprehensive income balance sheet item does not contain fair value level 3 instruments.

FAIR VALUE HIERARCHY OF AMORTISED COST TRANSACTIONS

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

				30/06/2018
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	8,526	–	–	8,526
Amounts due from banks	4	20	8	32
Cash collateral posted	–	12,167	–	12,167
Interest bearing securities at amortised cost	223	5,610	335	6,168
Loans and advances	863	89,592	7,597	98,052
TOTAL FINANCIAL ASSETS	**9,616**	**107,389**	**7,940**	**124,945**
Amounts due to banks	0	3,335	–	3,335
Cash Collateral received	–	466	–	466
Debt securities	82,396	25,043	1,164	108,603
Funds entrusted	2,099	2,579	1,859	6,537
Subordinated debts	–	45	–	45
TOTAL FINANCIAL LIABILITIES	**84,495**	**31,467**	**3,023**	**118,985**

				31/12/2017
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and balances held with central banks	2,996	–	–	2,996
Amounts due from banks	98	–	8	106
Cash collateral posted	–	13,892	–	13,892
Loans and advances	1,339	91,016	7,456	99,811
TOTAL FINANCIAL ASSETS	**4,433**	**104,908**	**7,464**	**116,805**
Amounts due to banks	–	2,078	–	2,078
Cash collateral received	–	369	–	369
Debt securities	82,264	22,165	1,166	105,595
Funds entrusted	1,831	–	3,857	5,688
Subordinated debts	–	–	46	46
TOTAL FINANCIAL LIABILITIES	**84,095**	**24,612**	**5,069**	**113,776**

The financial assets at amortised cost under Level 3 mainly relate to loans and advances subject to capital requirements to BNG Bank's statutory clients. 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 is not publicly observable in the market.

Loans and advances to statutory counterparties under government guarantees are included in Level 2, on account of the strong correlation with bonds issued by the Dutch State.

The financial liabilities at amortised cost under Level 1 relate to negotiable benchmark bonds issued by BNG Bank (Debt securities item). Private loans are classified under Level 3 (Debt securities and Funds entrusted items).

OFF-BALANCE SHEET COMMITMENTS

CONTINGENT LIABILITIES

This includes all commitments arising from transactions for which the bank has issued guarantees on behalf of a third party. 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.

REVOCABLE FACILITIES

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

IRREVOCABLE FACILITIES

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

	30/06/2018	31/12/2017
Contingent liabilities	80	78
Revocable facilities	6,215	5,839
Irrevocable facilities:		
– Outline agreements concerning undrawn parts of credit facilities	4,998	5,196
– Contracted loans and advances be distributed in the future	2,239	1,669
TOTAL OFF-BALANCE SHEET COMMITMENTS	**13,532**	**12,782**

EVENTS AFTER THE BALANCE SHEET DATE

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

The Hague, 24 August 2018

EXECUTIVE BOARD

MS G.J. SALDEN, CHAIR
O.J. LABE
J.C. REICHARDT

SUPERVISORY BOARD

MS M. SINT, CHAIR
J.J. NOOITGEDAGT, VICE-CHAIR (AND SECRETARY)
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J.C.M. VAN RUTTE

Review report

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

INTRODUCTION

We have reviewed the accompanying consolidated interim financial information for the six-month period ended 30 June 2018 of N.V. Bank Nederlandse Gemeenten, Den Haag, which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period then ended and the explanatory notes. The executive board is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information for the six-month period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 24 August 2018

PRICEWATERHOUSECOOPERS ACCOUNTANTS N.V.
ORIGINAL HAS BEEN SIGNED BY J.M. DE JONGE RA

COLOPHON

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BNG Bank
Koninginnegracht 2
P.O. Box 30305
2500 GH The Hague
The Netherlands
Telephone +31 70 3750 750
mc@bngbank.nl
bngbank.com